CHAPTER - I

INTRODUCTION

1.1 General Background

Before 1956, there was no modern industry in Nepal. The establishment of the Biratanagar Jute Mill in 1956 led the foundation of modern industry in Nepal. Despite of long experience of industrialization (about 50 years) industrial status is still very poor. Because of poor industrial status, Nepal's economy is very much weaker than any other industrial country. It is the major reason of the Nepalese dependency on foreign grants and loan.

It is necessary to develop industries to increase the economic status of the country. For the expansion of industries, conducive environment is necessary to attract the industries. Government needs to provide such environment. Various incentives and subsidies should be provided to the investors. Those incentives should encourage in the establishment of new industries and operation of existing industries. Among the various incentives, income tax incentive is also a major one to attract the investors.
Nepal has been practicing various tax incentives programs but still the industrialization process is very slow. The Income Tax Act (ITA) 2058 has provided various tax incentives and facilities to industries to attract the investment. However, the number of new industries is not enough to address the economic development.

Tax is one of the most important income source of any country, which directly affects the economic system of the society. With tax, the government not only collects money but also regulates all the business organizations. To reduce the poverty of a country, it is very necessary to grow up the industries. There are various dimensions of tax system. Mainly there are two benefits if tax collection system is effective and systematic. Thus, if tax collection system is effective, government can collect much more money and can use that amount in the developmental activities. On the other hand if the tax system is practical, people don't feel this as the financial burden imposed by the government to the public and in result tax evasion and tax avoidance reduces significantly. Country like Nepal, where the biggest part of the human resource are adopting agriculture based occupation, industrialization is fundamental need to develop the country, for this purpose tax system is also a factor and it should be practical and effective.

Although, tax planning helps to reduce the amount of tax and initiates to establish new industry to investor, it is not widely used tools. Especially in Nepal it is difficult to find tax planner industry. In one hand, it looks like most important tools to any business organization or industry, it has lots of scope and need but in other hand it is not in practically used. Thus, it can be said that tax incentives are the root cause of tax planning. If the tax incentives are highly initiative and encouraging, tax planning goes through widening. It means more tax incentives give people more attention and more consciousness to work on it. So, tax incentives and tax planning are highly correlated. Thus it can be said that more widening area of tax incentives leads to more widening adoption of tax planning. Although above statement is just an assumption till now sufficient study has not been done previously relating to the study about the effect of tax incentives on tax planning. Before understanding and considering tax planning, importance of tax incentives and its relationship with industrial development is to be understood. In absence of this concept studies are incomplete regarding the tax planning. Thus, it is necessary to study on the issue of tax incentives and its effect on tax planning.

1.2 Statement of the Problems

After 1980, Nepal has followed a liberal and open market economy. Social and economic development is not seen to have reached at its target point as it has a small economy with limited resources and political instability. Such unfavorable feature helps to draw back the economic status of the country. Economic development is the prime concern of every nation of the world. To fulfill this objective, countries of the world are formulating plans but developing countries are facing serious problems in the process of economic development. Nepal is not an exception to this condition. The poverty line of the people (about 38% of the total population) and the per-capital GDP after adjusting the population growth is estimated to Rs. 20,527 (equivalent to US dollar 276) per person which shows the poor economic condition. It needs huge amount of investment in industry for economic development.

Income tax act 2058 and its related laws have mentioned various tax incentives and deduction facilities to industries while proper tax planning made, such as only 20% tax rate in compare to 25% in other trading business, tax rebates of 30%, 25%, 20% to the industries established in remote, undeveloped, and underdeveloped area. Tax deduction facilities in Pollution Control cost (PCC) and Research and Development (R&D). However, no organization can be found which has adopted tax planning. However, it has given more importance for the rural part of the country and more initiation to domestic industry, the provision is not being implemented. Tax planning is one of the most required tools for any business organization because it reduces the tax burden and provides sufficient opportunity to grow up the business. Tax planning encourages generating maximum employment which helps in mobilizing the human resource of the country till now, despite of various tax incentive provision, tax planning is not widely adopted tools.

Thus in this context following questions can be raised:

- What is the effect of tax incentives on tax planning?
- What types of tax incentives are further required to implement tax planning widely in the industrial sector?
- What are the major problems of tax planning implementation in Nepal?
- Do tax incentives and facilities play vital role in industrialization?
- Are the incentives and facilities to industries provided by ITA sufficient?
- What kind of tax incentives and facilities are necessary to industries?
- What are the major problems of tax incentives provided by ITA to industries?

1.3 Objectives of the Study

The main objective of this study is to get insight into the tax incentives provision allowed by the present tax system and find out its effect on tax planning. Thus, the effectiveness of the tax incentive can be found out and the possible measure regarding tax planning can be suggested for further improvement. So, the objectives of this study are as follows:

1. To examine and analyze the tax incentives provided by ITA 2058
2. To examine and analyze the effectiveness of tax incentives and facilities to industries.

3. To examine the implementation aspect of Tax planning in Nepal.
4. To find out the problems and challenges faced by tax payers in the aspect of tax planning.
5. To find out the contribution of income tax to national revenue
6. To provided suitable suggestions.

1.4 Scope of the Study

This study covers only the aspect of policy maker, professor and tax payer on the issue of tax incentives and its impact on tax planning of present tax environment. Its aim is to study the tax incentives and tax planning and their correlation in the context current industrial environment. Likewise, to find out the impact of tax incentive in industrial development and analyze the difficulties to adopt tax planning system to the organizations which will ultimately affect to the economic development of the nation.

So, in brief the scope of this study can be presented as follows:

- Role of tax incentives to industries
- Role of tax planning to industries
- Impact of tax incentives on tax planning
- Guide to policy maker about tax incentives and tax planning
- Industrial study in the view point of tax incentives and tax planning
- Tax laws and procedures, income tax rate, exemption limit income tax act etc.

1.5 Research Methodology

Both the descriptive and analytical studies are included in this research. Descriptive study presents the data, facts and opinion and analytical study analyzes those data, fact and opinion so as to derive in a conclusion. Both primary and secondary data are used in this study. The primary data are collected for the opinion survey of the tax experts and tax payers.

1.6 Limitations of the Study

The limitations of this study are as follows:

- The study emphasizes only the industrial aspect of income tax.
- Primary data have been collected from the tax experts, taxpayers only.

- Time is the main constraint; therefore, few samples have been selected for opinion survey.
- The respondents are from the Katmandu valley only.
- The study is confined to Nepalese laws, acts, rules, ordinance, regulation and circular to income tax.

The above limitations, no doubt, have some impact on quality of the study, but such impact will not affect usefulness of the study in a significant manner. In fact, this study would provide a base for further study in the area of tax incentives and tax planning in the country.

1.7 Organization of the Study

This study is divided into the five chapters as follows:

Chapter - I: Introduction

Chapter one provides general background, statement of the problems, objectives of the study, scope of the study, need of the study, plan of the study and limitations of the study.

Chapter - II: Review of Literature

Chapter two is related to conceptual framework of the study is related to review of literature of different books, articles and dissertation.

Chapter - III: Research Methodology

Chapter three related to research methodology. It includes research design, weight of choice, respondents profile etc and is concerned with overview of legal provision regarding the tax planning and tax incentives under ITA 2058.

Chapter – IV: Data Presentation and Analysis

Chapter four is related with presentation and analysis of primary and secondary data.

Chapter – V: Summary, Conclusion and Recommendation

Chapter five is concerned with the summary, conclusion and recommendations.

CHAPTER - II
REVIEW OF LITERATURE

Review of literature is basically of stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. Here literature means the related printing materials about the subject matter of research work. It may be in various forms like book, booklet, thesis report etc. In the course of research review of the existing literature would help to check the chance of duplication in the present study. Thus one can find what studies have been conducted and what remains to go with review of literature is vital while doing research work as it gives the finding of previous study, it can be used as a secondary data, and it gives the valuable information about the subjects.

This chapter highlights the literature available related to the present study. This chapter comprises the following two parts, review of conceptual framework and review of previous related studies.

2.1 Conceptual Framework

2.1.1 Meaning of Tax

Many tax experts have defined tax in their own words. They are presented in the following.

According to the definition given by the Professor Seligman, "Tax is compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" (Dhakal, 2058:1-2).

According to the definition given by Taylor, "A tax is a compulsory payment to the government without expectation of direct benefit in return to the tax payer" (Amatya, 2060:1).

According to the definition given by Plehn, "Taxes are general contribution of wealth levied upon persons, natural of corporate to defray expenses incurred in conferring common benefits upon the resident of the states" (Dhakal, 2058:2).

From the above mention definition we can conclude that any compulsory contribution made by public to the government without expectation of the corresponding benefit by the payer is tax.

Government could expend such amount in the regular expenditure such as its administration, peace and security etc. to establish the social moral as well as in the development expenditure in different projects to increase the economic status of the poor people of the nation. The person on whom the tax is imposed but do not pay the tax are subject to the punishment under the legal provision.

2.1.2 Classification of Taxes

Economists have classified taxes into several categories. The major categories of taxes may be direct taxes, indirect taxes, progressive taxes, proportionate taxes, regressive taxes, digressive taxes, single taxes, multiple taxes etc.

However, taxes are broadly classified into Direct taxes and Indirect taxes.

2.1.2.1 Direct Tax

The direct tax on which it legally imposed cannot be transferred to others i.e. in direct tax the person paying and bearing the tax is same.

Dr. Dalton has defined the direct tax as, "is really paid by the person on whom it is legally imposed" (Amatya, 2060:2).

Some of the examples of the direct taxes are: Income Tax, Property Tax, Gift Tax, Interest Tax, Vehicle Tax, Death Tax etc.

2.1.2.2 Indirect Tax

An indirect tax is imposed on one person but paid partly or wholly by another. Indirect taxes are generally imposed on consumption of goods and service. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumers (Kandel, 2003: 6).

2.2 Income Tax

Generally, income means the inflow of cash to the person or firm. Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income denotes to the low living standard of people. People generate income from rendering various types of services, selling goods and producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood.

Economists define the term 'income' in a broad sense. It is a economic gain or receipt to a person during a particular period by way of wages, interest, profit and rent. The money income of the people is generally used for two purposes. Part of income is spent on consumption and part is saved. This definition can be expressed in the formula as follows:

$$Y = C + S$$

Where,

Y = Income

S = Saving

C = Consumption

But the purpose of taxation the definition of income is somehow different from the aforesaid definition. According to Income Tax Act 1974 (2031) "Income means the income earned or received in cash or kind from the sources mentioned in sec.5". In this section five different heads of income were mentioned. They were as follows: (ITA, 1974).

1. Agriculture
2. Industry, Business or Vocation
3. Remuneration
4. House and land rent
5. Other sources

The existing Income Tax Act 2002 (2058), which has been enacted since 2058 Chaitra 19, (1st April, 2002), has defined income in section 2)a' as "person's income from any employment business as calculated in accordance with this Act (ITA, 2002)]. It includes all sorts of income received for the provision of labour or capital or both of whatever form or nature in the taxable income.

Tax is, in simple terminology, a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the tax payers according to law. In the word of Seligman, taxation is the "Compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred."

From the definition given above it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. Secondly, tax payer cannot receive any quid pro quo for the payment of tax. The tax payer does not receive equivalent benefit from the government. Thirdly, the tax is paid to the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected form haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax (Kandel, 2004).

In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis of a minimum amount from certain specified or that they own certain tangible or intangible property or that they carry-on certain activities which have been chosen for taxation (Kandel, 2003).

Income tax refers to the tax levied on the income of a person and profits of corporation for the specific time period, particularly one year. Income tax is levied on the taxable income of a person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are subtracted and losses, which are allowed to deduct under the provision of income tax act are also subtracted. Then, tax-free incomes allowances and common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

2.3 Evolution of Taxation

In early days, taxes were collected at the time of emergencies, to finance means and to provide communal services. Taxes were levied on the basis of welfare of the people. At that time tax was not compulsory payment. People voluntarily paid the tax because non-payment of tax was taken as six in the Hindu tax system. According to Hindus' scripture, the duty of king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

Great Britain was the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France. Similarly, in U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war). However, in the beginning these countries imposed income tax as temporary until 1860. Thereafter, since 1913 it was accepted as permanent tax. This, income tax was adopted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1891, Australia and Canada had followed the income tax in 1915 and 1917 respectively. After that world war, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980).

In our neighboring country India, the income taxation was started in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of Income Tax Act 1886 (Dhakal, 2057).

In this way, income tax has become the regular source of national receipts for many developed and developing countries of the world. In the beginning, income tax was generally levied at a flat rate. The principle of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1909. Now-a-days the progressive rate is commonly used rather than flat rate in all over the world.

2.3.1 Taxation in Ancient Nepal

Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, travelers and farmers in the form of cash, kind and labour. On some occasions gold and agricultural products were also paid as taxes; but the nature of these taxes was temporary. In the Lichhavis regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called "Bhaga". The farmers were supposed to pay agricultural income tax to the government in 1/6, 1/8, and 1/12 quality of the land that they owned. Income tax, which was levied on business income was called 'kara'. There did also exist irrigation and religious tax during the regime of king of Ansubarma of Nepal (Shauh, 1995).

2.3.2 Taxation in Unified Nepal (1768–1846)

After unification of kingdom of Nepal, expenses for administration, military and other operational activities were increased significantly. During that period, taxation has been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, various levies and fixes, forest product tax and mining tax were levied. Local administration was directed "to take whatever is paid willingly by the people." Taxes were collected from the three levels (Agrawal, 1980).

1. Royal Palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.
2. Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.
3. Local: Prerequisites of local officials, functionaries and mendicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land tax and special levies like "Darhsanbhet", "Salami", Walak" etc. After the unified period, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main source of revenue from land was Birta and Kipat.

King Prithvi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal. It was based on flat rate system and limited on small Birta owners. There was no taxation of income in the sense of modern income tax.

2.3.3 Taxation in Rana Regime (1846–1950A.D.)

Imposition and collection of taxes during 104 years oligarchic rule of the Rana family in Nepal prior to 1951 was the prerogative of the feudal rulers. Only those taxes, which suited the objectives, needs and whims of the ruling Prime Minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of income tax act and finance act. The collected taxes were directly deposited into the Prime Minister's Account.

Land tax, custom and excise duties in the form of lump sum, contracts, royalties on felling trees, royalty on supply of porters and soldiers, entertainment taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis and "Salami" which the government employees used to pay out of their salaries at a very small percentage.

Rana Prime Minister levied taxes for meeting specific expenditure of the royal household or extraordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During Nepal- Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur had imposed a tax on the income of selected groups. Similarly, Bir Shamsher imposed a levy of 1% on the official value of Jagir assignment of government employees in 1891, to finance the transportation of water pipe supply in the capital. Ranoddip Singh imposed a 50% tax on the income made by fishermen in Deukhuri from the sale of fish in 1882.

2.3.4 Income Tax in Modern Nepal

Actually, the modern income tax act was started in the year 1959 in Nepal. After the political revolution in February 1951 (2007 B.S. Falgun), the role of government has increased to developmental as well as philanthropic works. The government of Nepal had presented its first budget in 1952 (2008, Magh 21). The first five year plan started in 1956. The planned activities of the government needed huge amount of source and means. So huge revenue was demanded and Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959 (2016) to impose tax on business profit and remuneration. In 1960 (2017) the income tax act named "Business Profit and Remuneration Act, 2017" was made with the provisions of finance ordinance 1959. That was the first income tax act, which had 22 sections. But that act was found narrow and vague. So it was replaced by the Income Tax Act 1962 (2019). That act continued for 12 years and it was also replaced by the Income Tax Act, 1974 (2031). That act was amended for eight times. That tax act was replaced by new Income Tax Act, 2002 (2058). This is the fourth income tax act of Nepal.

2.4 Gradual Developmental of Income Tax Act and Laws

2.4.1 Business Profit and Remuneration Tax Act, 1960 (2017 B.S.)

The Finance Act 1960, made provisions for the taxation of business profits and remunerations. An ordinance was issued by the king to collect the tax. In 1960, parliament of Nepal, enacted, "Business Profit and Remuneration Tax Act 1960 (2017)", which consisted of 22 sections. With the enactment of that act, the salary tax or personnel income tax was levied upon those individuals whose personal income exceeded Rs.6,000 per year. In the first three years, the exemption was Rs.7,000. An examination of tax files in the Kathmandu District Office disclosed 557 personal income tax files of individuals who had paid taxes in one or more years.

The following were the silent features of the Act (BP & RA, 1960).

1. Only remuneration and business profit were subject to tax. Deduction was not specified for the purpose of calculating the income.
2. Tax on remuneration was to be deducted at source.
3. The basis for calculating the tax liability for remuneration was the income of the current year and for the business profit, it was the profit of preceding year.
4. In case of default, fines up to Rs.5,000 were prescribed.
5. The tax payer was given the right to appeal against the tax court. Every appeal was to be accompanied by security deposit for the amount of tax payable.

6. The tax officers were empowered to assess tax on the basis of best judgment estimates.
7. Profits from industries were granted a rebate of 25 percent and profits from small industries were granted a rebate of 50%.

As high discretionary power in assessment of income tax granted to tax officers, various loopholes, narrow and vague tax base were the major shortcomings of that act which cause the Income Act 1962 (2019) came into existence.

2.4.2 Income Tax Act, 1962 (2019)

The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create regular tax paying habit of the taxpayer. The Income Tax Act 1962 had 29 sections and it was amended in 1972 (2029 B.S.). It had provision of imposition of income tax in agricultural income, but this provision was abolished by the Finance Act, 1966 (2023). The additional features of this act were as follows (ITA, 1962).

1. Income was defined as kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash or kinds, agriculture, insurance business, agency and any other sources.
2. The personal as well as residential status of the tax payer for the tax purposes was defined.
3. The income tax assessment and collection procedure were specified along with the method of computing net income. Certain deductions were allowed to calculate net income.
4. The basis was specified for assessing tax on the best judgment estimate of the tax officer.
5. Provision was made for the installment as well as advance payment of the tax for the first time.
6. Carry forward of loses was allowed for two years.
7. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
8. The Act granted power to constitute a net income assessment committee.

The changing socio-economic environment of the nation had forced to change the income tax act. As a result Income Tax Act, 1974 (2031) came into existence.

2.4.3 Income Tax Act, 1974 (2031)

The Income Tax Act, 1974 can be said to be the refined form of Income Tax Act, 1962 (Dhakal, 2057). It had 66 sections. This act has explained various aspects of taxes, containing many provisions for taxation. This act was amended for eight times. Some of the features are as follows:

1. This act had clearly defined about income tax, taxpayer, year of income, personal status of taxpayer, non-resident taxpayer, and net income and so on.
2. Five heads of income sources were specified viz. a) Agriculture, b) Industry, Business, Profession or Vocation, c) Remuneration, d) House and Land Rent and e) Other sources.
3. Methods of computing the taxable income from each head had been specified with deductions allowable.
4. The Act had made it obligatory for taxpayer to register their industries, business, profession or vocation in the tax office and any changes should be notified.
5. Carry forward of losses is allowed for within subsequent three years.
6. Provision was made for self-assessment of tax for the first time in Nepal.
7. Provision was made relating to deduction for life insurance premium and contribution made for philanthropic purpose.
8. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
9. Provision was made to make agreement for avoidance of double taxation with foreign government.
10. Provision was made relating to reassessment or additional assessment of tax.

2.4.4 Income Tax Act, 2002 (2058)

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 (2058), since 1st April 2002 (19th Chairta, 2058).

Income Tax Act, 2058 has been amended two times by the finance ordinance of 24th Ashadh and 22nd Paush of 2059 B.S.

1. To levy tax on all income sources and income earning transactions.
2. To impose uniform tax to all people and all sources.
3. To make income tax revenue more productive and elastic.
4. To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.
5. To make accountable and improve tax administration.
6. To reduce economic cost neutralizing income tax.
7. To emphasize statement based on accounting system.
8. To make responsible to income taxpayers emphasizing procedure of self-assessment system.

The key features of Income Tax Act, 2058 are:

1. Classification of sources of income into 3 classes. (A) Business (B) Employment (C) Investment
2. All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different Acts.
3. The Act has broadened the tax base. Unlike previous tax Act, tax rates are spelled out in the Act. The tax rates and concessions are harmonized on equity grounds.
4. The Act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
5. The Act has first introduced taxation on capital gains.
6. The Act has provided liberal loss set-off and carry forward/backward provisions. Interned adjustments of losses are clearly specified.
7. The Act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administrators internally.
8. The Act has provided a stringent fine and penalty for the defaulters.
9. Global incomes of a resident are made taxable. Non-residents are also taxed on their incomes with source in Nepal.
10. List of expenses are inclusive. All expenses relating to income have been made admissible.

11. The Act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
12. The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

2.5 Tax Incentives

2.5.1 Concept of Tax Incentives

Tax incentives to invest arise from the relaxation in normal taxation rules, which curtail the tax burden and thus increase the profitability of a particular investment activity. Tax incentives involve cost in the form of loss of revenue to the government but at the same time it result in increase in corporate savings and investments (Poudyal, 1998: 26).

An income tax is a disincentive to save or invest and therefore, the incentive is to mitigate the disincentive. It may imply a partial of complete exemption from one or variety of taxes and special allowances for a certain periods to motivate the behaviour of saver or investor. The main aim of tax incentive is to increase savings and to encourage and channelize the investment to the desired area of sector (Kandel, 2001: 63).

A tax incentive reduces the tax burden of an organization thereby reducing the effective tax rates. The result is reduction in investment risks, more attractive public issue of equity share and enhancement in the borrowing capacity. The willingness to invest depends upon the after tax profitability of investment, while the ability to invest depends upon the availability of internal and external funds.

The necessity for offering tax incentives is felt basically for two reasons: stretching the scope of tax beyond its revenue objective to achieve certain socio-economic ends and to mitigate the adverse impact of high taxation on corporate saving and investment activities.

2.5.2 Tax Incentives in Nepal

Tax incentives system in Nepal has introduced first time by the Industrial Enterprises Act, 1961. This act was the first Industrial Enterprises Act.

The first Industrial Enterprises Act had given the following incentives to industries:

- Ten years tax holiday to newly established industries
- Tax rebate of 25% of the tax liability on the discretion of Nepal Government to the operating industries.
- Full and partial rebate of the tariff for exporting goods and importing machineries, parts and raw materials etc.
- The industrial enterprises act 1974 had given various incentives to industries, which are as follows:
- Tax holiday of up to 18 years to the industries established in the different parts of the countries.
- Investment and depreciation facilities to extension and modernization of industries.
- Relief of excise and import duty etc.
- The third Industrial Enterprises Act was enacted in the year 1981. This act had given the following incentives to industries.
- Tax holiday up to 12 years to industries
- Income tax rebate of up to 50% for exports
- An allowance of 15% to the new investment
- Levy to import of machinery, spare parts and raw materials was very nominal. It was only 1% of the imported value.
- Exemption of excise duty to different types of industries
- Exemption of sales tax to cottage industry in import of machinery, spare parts etc. and domestically produced goods.
- In comparison to above acts the Industrial Enterprises Act 1992 has given more tax incentives. Those incentives are as follows:
- Maximum rate of tax to be charged to industries as 20%
- Completely exemptions of income tax, sales tax, excise tax etc. to the cottage industries.
- Additional depreciation facility of 33.33% to the industries.
- Deduction of 10% of gross income for research and technology development expenses.

- A rebate of 10% to industries not related to tobacco, alcohol, sawmill and kattha industries using 100% of Nepalese labour and 80% or more of Nepalese raw material.
- Investment allowances of 40% of extended fixed assets investment if the firm increased its capacity of line of production more than 25% of the original
- Deduction of 50% of pollution control expenditure from taxable income within 2 years.
- Provision of different types of sales tax, excise and custom rebate to industries.
- Sales tax and excise rebate up to 13 years to the fruit processing and fruit based wine producing industries located in remote areas.
- Besides these incentives the amendment in the act in year has given the following facilities to industries.
- A holiday of 50% to the national priority industries related to the construction of road, bridge, tunnels, ropeway, flying bridge, trolley bus and tram for the period of ten years
- A holiday of 50% to the industries other than the above, for a period of 7 years.
- Tax rebate of 30%, 25% and 20% to the industries established in the remote, undeveloped and underdeveloped areas specified in the appendix 3 of Industrial Enterprises Act 1992.
- No double taxation on raw materials used by industries.

Some provisions related to industries under this act are curtailed down by the amendments in this act. Among these the full tax holiday, exemption on dividend income and exemption in export income etc. are some examples.

2.5.3 Types of Tax Incentives

There are various types of tax incentives, among them some of the tax incentives are briefly described below.

2.5.3.1 Investment Allowance

Investment allowance is a facility given to encourage the investment in the industries. It provides the facility to deduct the some part of investment from the taxable income of the organization.

2.5.3.2 Investment Tax Credit

Investment tax credit is also a facility given to prospective industrialists so as to encourage investment. It provides facilities to deduct some part of investment from the tax liability.

2.5.3.3 Tax Holiday

The investment allowances may be favored by existing industries companies, whereas tax holiday is mainly concerned with new companies in the industrial sector. Such a relief on tax is applicable on profits earned from new investment and it will automatically terminate after the holiday period (Poudyal, 1998: 27).

Tax holiday refers to complete or partial exemption of earnings for a specified period of time especially in the beginning. It is exemption type of fiscal incentive. It may be partial or full. Especially in the later years it becomes partial. It is assumed that after the end of holiday period, the firm pays full tax and company is not allowed to transform it into a new company (Kandel, 2001: 68).

Tax holidays have certain benefits over other types of investment incentives. It becomes more beneficial to those profitable firms, which have no other forms of incomes during tax holiday period. Thus, it concentrates on new business organizations (Kandel, 2001: 69).

So, the tax holiday is full or partial exemption in the tax liability for the organizations (especially for new organizations) to relief the investment cost and to promote them.

2.5.3.4 Accelerated Depreciation

Accelerated depreciation mean higher depreciation in initial years and gradual decrease in later years. It includes allowing the cost of fixed assets to be depreciated within a shorter period than its service life, whatever is the method of charging depreciation (Kandel, 2001: 67).

Accelerated depreciation helps to reduce the tax burden of the industries in the initial years and shifts it to the later years. This is because the expenditure of the industries in the initial year will more than the actual expenditure, which reduces the taxable income of the organization and ultimately the tax liability of the organization.

2.5.3.5 Set off and Carry Forward of Losses

If there is loss under one source and profit under another source of the same head, the former is set-off against the latter. Similarly, when incomes from different heads are aggregated, the loss under one head of incomes is set-off against the income of another head. If the aggregated amount of a year turns into net loss, this loss can be carried forward in future year(s) for set-off against the income of subsequent years (Poudyal, 1998: 31).

If there is income in any income year, organization has to pay income tax but if there is loss the organization has to bear all the burden of losses without any compensation, which discourages in investment. Therefore, the income tax provides loss adjustment facility so that the organization having losses in previous income year can relief by adjusting the losses from the income of the succeeding income year(s). Similarly, the inter-head adjustment facility also provides some relief to the loss of one income head by adjusting the losses in another head's income.

This loss adjustment facility is different in different countries. This facility can be adjusted as per the requirement of incentives. If the investment required for any industry is higher than the chances of losses in initial year will be high so, relatively long carry forward period may be provided in these sectors.

2.5.3.6 Incentives for Development of Specified Areas

Various tax incentives can be provided to the development of the specified backward or rural areas. The incentives may be in the form of tax rebates, tax holidays, investment allowance, and investment tax credit etc.

Those incentives provided to the rural areas for encouraging investment in those sectors so, the economic status of these areas increases.

2.5.3.7 Incentives for Research and Development

Research and development is the backbone of economic development of any country. Without research new invention may not be possible. But the research needs lots of amounts and is higher burden to the researcher. Therefore, a small organization could not invest in research and development due to lack of incentives. Income tax law provides some incentives in the form of deduction facilities to this expenditure and that would help to recoup the entire investment quickly in the earlier years, which encourages the expenditure in research and development.

2.5.3.8 Incentives to Install Pollution Control Devices

Development of economy is almost impossible without the development of industries but the industries waste pollutes the environment. Organization needs the pollution control devices to reduce the environmental effects but it needs higher amounts of investment. So, to use the pollution control devices certain facilities may be provided. It may be in the form of deduction facilities to this expenditure.

2.5.3.9 Export Incentives

Some tax facilities may be provided to the organizations that export it's product in abroad. The tax incentives may be in the form of tax rebate and tax concession in the income from export, market development allowance, customs and excise relief, export credit, tax exemption in the income from the export of technical know-how etc.

2.5.3.10 Amortization of preliminary Expenses

While commencing a business, high amount may be expended in the form of preliminary expenses, which will have long-term effect in the business such as high amount of advertisement expenditure etc. Tax incentives may provide to write off this type of expenditure within a certain period of time.

2.5.3.11 Employment Incentives

Generally in underdeveloped and undeveloped countries have the problem of unemployment so; certain tax incentives are provided to the industries that provide employment to the substantial employees. The incentives may be in the form of tax rebates and concessions.

2.6 Specimen for Calculation of Income from Industry as per ITA 2058

There is no separate format for calculation of income from industry but the same format for calculation of business income is to be used in calculation of industry.

The summary of the format for calculation of income from industry is given below.

(**A) Computation of Income from Business**

Particulars	Amount
Inclusions (Amounts to be included) Service fees (Section 7.2.a) Amounts derives from the disposal of trading stock (Section 7.2.b) Net gain from the disposal of the person's business assets or liabilities (Section 7.2.c) Amounts treated as derived from the disposal of depreciable assets (Section 7.2.d) Gift received by the person in respect to the business (Section 7.2.e) Amounts derived as consideration for accepting a restriction on the capacity to conduct the business (Section 7.2.f) Amounts derived from investments that are effectively connected with the business (Section 7.2.g) Amounts to be included by reason of change in the accounting system (Section 22.6) Amounts to be included by reason of timing (Section 24.3) Recovered amount of bad debts deducted earlier (Section 25.1) Amounts to be included as per contract completion basis in the case of a long term contract (Section 26.1) Difference of actual interest and interest as per market rate in case of a soft loan (Section 27.1.d) Amounts paid to third person instead of actual payee (Section 29) Amounts derived as compensation (Section 31) Others amounts to be includes in profit and gains	
(A) Total Inclusions	
Deductible Expenses: General deductions (Section 13) Interest (Section 14) Cost of trading stock (Section 15) Repair and improvement costs (Section 16) Pollution control costs (Section 17) Research and development costs (Section 18) Depreciation (Section 19) Deductible reserve (Section 59.1) Other than mentioned above	
(B) Total Deductible Expenses	
Deductible Losses: Unrelieved losses from other business of this year Unrelieved losses from business of previous years	
(C) Total Deductible Losses	
(D) Total Deduction (B+C)	
Income or loss from the business (A-D)(in case there is no loss in this row, this amounts is treated as assessable income from business)	

(B) Computation of Taxable Income

Assessable income from Employment Assessable income from Business Assessable income from Investment`	
Total assessable income Less: Contribution to recognized retirement funds (as per tax law) Less: Donation (as per tax law)	
Taxable income	

2.7 Legal Provision

This chapter is devoted to the analysis of legal provision related to the tax incentives and facilities under ITA 2058. The various incentives and facilities provided by the new ITA 2058 to the industries are analyzed in this chapter so as to conclude whether the tax incentives and facilities are sufficient enough to promote industries or not.

2.7.1 An Analysis of Tax Incentives and Facilities

ITA 2058 has provided various tax incentives and facilities to industries. These incentives and facilities are analyzed below.

2.7.1.1 Tax Concessions Available to Certain Special Industries

As per the clarification clauses of Section 11, a special industry is an industry categorized under Section 3 of Industrial Enterprises Act, 1992. These industries are the manufacturing industries other than cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of similar nature utilizing tobacco as the basis raw material and alcohol or beer producing industries.

As per Section 3, the manufacturing industries are those which produce goods by utilizing or processing raw material, semi-processed materials, by products or waste products or any other goods.

The tax rate applicable to these industries is 20% in flat rate, which seems to be nominal to the larger industries but it is not suitable to small industries and export industries. To encourage the investment in small as well as the export industries, the tax rate should be minimized. It should be in progressive rate rather than flat rate.

2.7.1.2 Tax Concession to a Special Industry Having Six Hundred or More Employees {Section 11(3)(a)}

Tax concession is available to a person running a special industry, which provides direct employment to six hundreds or more Nepali citizens during the whole income year.

Direct employment mean employment by the person but it does not include the contract labour, casual labour, of part time labour, include the contract labour, casual labour, of part time labour.

Tax concession of 10% available to the industry, which employ 600 or more employees throughout an income year

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	18%
Natural person (Couple)		
First Rs. 2,00,000	Nil	Nil
Next Rs. 1,00,000	15%	13.5%
Rest	20%	18%
Natural Person(Individual)		
First Rs. 1,60,000	Nil	Nil
Next Rs. 1,00,000	15%	13.5%
Rest	20%	18%

Note: The concession for an industrial unit run by a natural person is available from the income year 2065-66 under finance ordinance, 2066.

One of the major problems of Nepal is unemployment and the tax concession provided to the employment oriented industries by income tax act is very much lower i.e. 10% only. Unemployment is very common in Nepal and to reduce the unemployment, industries employing more employees should be encouraged. More tax incentives should be provided to these industries. So, the 10% rebate to the industry, which employs 600 or more, should be increased to 25%.

2.7.1.3 Tax Concession to Special Industries Established in Different Areas

Income tax act has provided tax concession to industries established in various areas, which are presented below.

2.7.1.3.1 Tax Concession in Remote Area {Section 11(3) (b)}

If a person has a special industry, which has been established in an area declared as 'Remote Area' by Nepal Government, can avail the concession of 30% of a rate applicable to a Special industry.

These districts of Nepal are declared as remote area:

1.	Darchula	2.	Bajhang	3.	Bajura
4.	Humla	5.	Jumla	6.	Mugu
7.	Kalikot	8.	Dolpa	9.	Mustung
10.	Manang	11.	Solukhumbu	12.	Ramechhap
13.	Khotang	14.	Bhojpur	15.	Achham
16.	Dailekha	17.	Jajarkot	18.	Rukum
19.	Okhaldhunga	20.	Myangdi	21.	Terathum
22.	Sankhuwasabha				

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	14%
Natural person(Couple)		
First Rs. 2,00,000	Nil	Nil
Next Rs. 1,00,000	15%	10.5%
Rest	20%	14%
Natural Person(Individual)		
First Rs. 1,60,000	Nil	Nil
Next Rs. 1,00,000	15%	10.5%
Rest	20%	14%

Note 1: The concession for an industrial unit run by a natural person is available from the income year 2065-66 under finance ordinance, 2066.

Note 2: The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

If industries are operated in remote areas, the economic activities as well as the income of the poor people increase through employment. It will consume the local productions as raw material and also help in the equal distribution of income. So, promotion of industries in remote areas is necessary but the income tax concession is very nominal i.e. 30%. Therefore, the tax concession should be increased to near about 75% to the industries established in remote areas.

2.7.1.3.2 Tax Concession in Undeveloped Area {Section 11(3) (b)}

If a person has a special industry, which has been established at any area declared as 'Undeveloped Area' by Nepal Government, the person can avail a concession of 25% of a rate applicable to a special industry.

These districts of Nepal are declared as undeveloped area:

1.	Taplejung	2.	Rolpa	3.	Baitadi
4.	Rasuwa	5.	Gulmi	6.	Parbat
7.	Dadeldhura	8.	Pyuthan	9.	Doti
10.	Salyan	11.	Panchathar	12.	Baglung
13.	Sindhupalchowk				

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	15%
Natural person(Couple)		
First Rs. 2,00,000	Nil	Nil
Next Rs. 1,00,000	15%	11.25%
Rest	20%	15%
Natural Person(Individual)		
First Rs. 1,60,000	Nil	Nil
Next Rs. 1,00,000	15%	11.25%
Rest	20%	15%

Note 1: The concession for an industrial unit run by a natural person is available from the income year 2065-66 under finance ordinance, 2066.

Note 2: The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

As in remote areas, in undeveloped areas contribution of industries will be more beneficial but the tax concession is only 25%. Therefore, it should be increased to 50%.

2.7.1.3.3 Tax Concessions in Underdeveloped Area {Section 11(3) (b)

If a person has special industry, which is established at any area declared as 'Underdeveloped Area' by Nepal Government, the person can avail a concession of 20% of rate applicable to a special industry.

These districts of Nepal are declared as underdeveloped area:

1.	Kailali	2.	Arghakhanchi	3.	Surkhet
4.	Palpa	5.	Syangja	6.	Dhading
7.	Lamjung	8.	Tanahu	9.	Gorkha
10.	Sindhuli	11.	Udayapur	12.	Dhankuta
13.	Ilam	14.	Kanchanpur	15.	Bardia
16.	Dang	17.	Nuwakot	18	Dolakha
19.	Kavrepalanchowk				

The chart of concessions available is given below:

Types of person	General rate applicable to a special industry	Concession rate available under this Section
Entity	20%	16%
Natural person (Couple)		
First Rs. 2,00,000	Nil	Nil
Next Rs. 1,00,000	15%	12%
Rest	20%	16%
Natural Person (Individual)		
First Rs. 1,60,000	Nil	Nil
Next Rs. 1,00,000	15%	12%
Rest	20%	16%

Note 1: The concession for an industrial unit run by a natural person is available from the income year 2065-66 under finance ordinance, 2066.

Note 2: The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case some body else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

Since, the economic activity of these areas is not so poor as in remote and undeveloped areas the tax concession of 20% to the industries established in underdeveloped areas seems to be sufficient.

Note:

1. Any industry, which has entitled to get both the tax concessions under sections 11(3) (a) and 11(3) (b) should choose either of them but not both of them.
2. The tax concession under section 11(3) (b) is only for 10 income years.

The tax concession period of 10 years to the new industries established in different areas seems to be insufficient because almost all of the new industries will be in loss in the initial years and when they passes to the stage of profit the tax concession period expires. So, the tax concession period of 10 years is not sufficient and it should be increased. It should be 15 years to the industries established in underdeveloped areas and 20 years to the industries established in the remote areas.

2.7.1.4 Accelerated Depreciation Facilities Available to Certain Special Industries {Section 19, Schedule - 2}

Depreciation is the reduction in the original value of a depreciable asset due to use or obsolescence over the expected life of the asset. Depreciation is an important factor for reduction of tax liability of a person because depreciation is a deductible expense. For the purpose of calculating a person's income for an income year from any business or investment, the person is allowed to deduct the depreciation of depreciable assets owned and used by the person during the year in the production of income from the business or investment (Amatya, 2060:130).

Income tax act 2058 has categorized the depreciable assets into five classes and each class includes different pools (groups). The act has also specified the rate and procedure of computing depreciation for each class. The treatment with regard to the disposal of the depreciation for each class and depreciation rate for the concerned class is as follows.

Class	Assets Included in each class	Depreciation rate in Percentage
A	Buildings, structure and similar works of a permanent nature	5
B	Computers, data handling equipment, fixtures, office furniture and office equipment	25
C	Automobiles, buses and minibuses	20
D	Construction and earth-moving equipment, any depreciable asset not included in another class, Capitalized PCC and R&D.	15
E	Intangible Assets.	$\frac{1}{usefullife}$

ITA 2058 has provided a facility to charge additional depreciation to the special industries, entity engaged in building public infrastructure etc. This additional depreciation seems to be sufficient to industries. If the additional depreciation is more than 1/3, industry would be in higher loss in initial year, which may not be recovered in 4 years whereas the taxable income will be very high in the succeeding years due low amount of depreciation chargeable.

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2.7.1.5 Pollution Control Cost {Section 17}

ITA 2058 has allowed deducting the expenditure made on installing the pollution control cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part there of, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

This deduction facility has two types of impact. In one hand, if the whole amount is not allowed to deduct industry may be discouraged to install pollution control device. In other hand, if whole amount allowed to deduct the industry may purchase and install this device at the income year in which the taxable income is high so as to reduce the tax liability. The excess amount can be allowed to capitalize and depreciate. Therefore, the deduction facilities given by this ITA seems to be sufficient.

2.7.1.6 Research and Development Cost {Section 18}

ITA 2058 has allowed deducting the expenditure made on research and development cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part there of, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

ITA has given similar deduction facilities to pollution control cost and research and development cost. Therefore, it should be like pollution control cost.

2.7.1.7 Carry Forward and Set off of Industrial Losses {Section 20}

ITA 2058 has allowed the business losses from the investment losses but the tax rate should be same. This facility seems to be unusual to the industry because the tax rate applicable to industry is 20% and the tax rate of investment income is 25%. So, the industry cannot set off and carry forward its losses from investment income.

On the other hand, the carry forward facility to industry and normal business is same, which seems to be inequitable. Industries need higher amount of investment and have more risk in investment than any trading business but the carry forward and set off facilities of industrial losses is similar to industries and trading business. So, the loss adjustment facility should be more liberal and it should not be less than seven years.

2.8 Review of Related Materials

2.8.1 Review of Research Reports and Articles

Lal (1992), an Indian auther, published his 14th revised addition in titled 'Direct Taxes' in which he has mainly focused with income tax, wealth tax, gift tax and tax planning. He has revised this book considering the Indian Tax Act 1991. In his book, he states that the admissible depreciation has been restricted to 75% in the case of corporate assesee, to promote tourism in remote regions; the rare of deduction was increased from 30% to 50% compared to previous. Tax rate was increased from 8% t0 12% and domestic companies were liable to pay such charge @15%. For the purpose of preventing tax evasion, scope of tax deduction was enlarged. To promote social and economic welfare, expenditure in eligible projects approved by National Committee was allowed to be deducted in computing taxable profits of business or profession. Publishing industry had been given a boost by providing 20% deduction in computing total income. Interest on refund was 1% per month.

He has described about tax planning by spending one chapter. Introduction and meaning of tax planning, test of successful tax planning, methods of tax planning, tax management and scope of tax management are sub-topic in his book. Scope of tax management is fully based on Indian Direct Tax Laws Act 1991. He has categorized the scope of tax management in ten points. They are under the head of salaries, under the head of profits and gains of business or profession, under the head of house property, under the head of capital gains, deduction of tax at source, advance payment of tax, filing and return of income, review of unfavorable orders, documentation and maintenance of records and compliance with law.

Prasad (1996) , has written a book in entitled 'Direct Tax Laws and Practice' which is his 30th addition. In this book he has focused in income tax, wealth tax, gift tax and tax planning/management. He states that he has given more stress in tax planning portion. He has tested each chapter with the aspect of the tax planning/management. In basic concept he states that while commencing business there is some scope in selecting the form of business organization. One has to analyze the income and the rate of tax applicable to insight the type of business form. In the chapter of Capital and Revenue, he adds any businessman should be aware whether he is incurring the expenses in the category of revenue or capital assets and only revenue nature expenses can be claimed whether calculating the taxable income. In the chapter of Profit and Gains of Business or Profession, he has recommended the following discussing issues for a new business in respect of tax planning.

1. Location
2. Form of organization
3. Nature of business
4. Capital structure
5. Obtaining fixed assets
6. Setting up and commencement of business.

In the case of depreciation, he says that the knowledge of claiming depreciation at proper time at proper rate, tax liability could be reduced considerably. In capital gain, he has stressed that one should be careful while deciding to incurred the expenses in short-term capital and long-term capital because short term capital gains are taxed as any other income whereas long-term capital are treated concessional. Like wise, income-tax on long -term capital gains can be saved if the amounts are invested etc. keeping in view the relevant provisions. In the head of carry forward and set of losses, he has emphasized that the provisions relating to set off and carry forward of losses are important particularly for those who are planning either to close down the losing business or who are interested in the scheme of amalgamations. In the respect of assessment procedure, he states that the tax executives in any organization will have to manage the tax affairs in a way that the assessment does not suffer any infirmity and the assessed is not subjected to penalty etc. for any fault and lapse. He recommends keeping in mind the following points:

a. The return of income should be submitted on or before due date.
b. It should be complete in all respect
c. Advance tax and tax on self-assessment must be paid correctly to escape the rigors of penal interest.
d. Proper form has to be used.
e. In case of reassessment or ratification of mistake, care should be taken to see that the proceeding initiated by the Department is not time barred.

He has also presented the scope of tax planning related to the title appeals and revision, deduction of tax at source and refund of tax. Although this book is mainly concerned with direct taxes laws and practice, this has tried to present the scope of tax planning by different aspects (Prasad, 1996).

Agrawal (1978), has presented a study entitled, *"Resource Mobilization for Development: The Reform of Income Tax in Nepal".* He has studied the resource mobilization through income tax. He has also described the fiscal policy, income tax and the legal provision, administrative aspects of income tax etc. He has calculated the elasticity and buoyancy of income tax. His major findings are related to the problems of income tax and those are inefficient tax administration, tax evasion, lack of integrated education (i.e. knowledge, assistance, guidance and counseling etc.) in the tax system. The tax offices are the major place of the corruptions and they have bad image in public. Inefficiency, delays, unfair dealings, harassment are common in the tax system. Ambitious tax laws, poor coverage, poor enforcement and the lack in compliance of laws are the other problems of the income tax system.

Kandel (2004), had written an article entitled, *"Are Tax Incentives Useful? If so, which one?"* published in Journal of Finance and Development, 'Rajaswa', Volume 1 2004 April. In that article he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter whether they promotes the investments or not. But he argues that most of the developing countries need tax incentives.

As per the empirical studies done in various countries the conclusion is that among different types of tax incentives, investment allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal.

He further adds that the survey of the studies indicate that accelerated depreciation system has positive impact on investment. The work of reducing tax rate, especially, followed after 1990s to such lowest rate was not a proper decision. That is why, it Nepal wants to go to tax incentives again, it should adopt investment allowance or investment tax credit, not the full tax holiday in future. United Nations published a journal on public finance entitled, *"Guidelines for Improving Tax Administration in Developing Countries"* in 1977. The study was dividend into four separate parts. Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory commentary. Functions of tax administration are identification and registration of tax payer, assessment, collection, auditing and supporting functions, taxpayer's education, information provider and assistance etc. The study had detailed explained these two functions and the study had recommended some valuable suggestions to the developing countries.

2.8.2 Review of Books

Dhakal (2001), has written a book entitled, *"Income Tax and House and Compound Tax Law and Practice"*. This book has based on the syllabus of the BBS and MBS level of T.U. Various provisions related to the income tax under income tax act 1974 has described in this book. The incentives given to industries by industrial enterprises act have also described in this book. Clear numerical examples have presented to derive the taxable income from the various sources of income. This book has also included the house and compound tax and value added tax.

Mallik (2006), has written a book entitled, *"Nepalko Adhunik Kar Pranali"*. He has explained the various difficult languages of the ITA 2058 in simple language with suitable examples. The main objective of this book to make clear about the provisions of the new act to the taxpayers. This book is some how analytical in nature with the descriptions of the legal provisions of the income tax act 2058. He has clarified how the new income tax act has broadened its tax base and more amounts of incomes are brought into tax net.

Bhattarai and Koirala (2008), have written a book entitled, "*Tax Laws and Planning"*. This book is also designed in conformity to the MBS level students of T.U. In the same year another book entitled, *"Taxation in Nepal"* has been published by the same writers and this book has also covered the syllabus of BBS level. Both of the books are of descriptive in nature and presented various examples to derive the taxable income and tax liability from the various sources. In the first book, some examples regarding how the tax can be planned under ITA 2058 has been presented.

Kandel (2008), has written a book entitled, *"Tax Laws and Tax Planning"*. This book's main objective is to meet in conformity with the MBS level syllabus of T.U. He has presented the numerical examples to derive the taxable income and tax liability. Another book entitled, *"Nepal Ko Bartaman Kar Byabastha"* by the same writer in the same year has been published. This book is based on the course of BBS level.

Louise, Nancy, Morisset and Pimia (2002), a draft entitled, *"Using Tax Incentives to Compete for Foreign Investment"*. This book is descriptive as well as analytical in nature. The writers have raised three issues relating to attraction of foreign direct investment. Among these the major issue is regarding the tax incentives competition in the developing countries to attract the FDI. The writers have pointed out that tax incentives have not so much effective in attracting foreign capital. But, developing countries have hardly abandoned them. In fact, the tax incentives are increasing rather than decreasing.

2.8.3 Review of Thesis

Koirala (1985), has presented a dissertation entitled, *"Tax Incentives and Industrialization"*. His study is based on empirical investigations. Separate questionnaires have been developed for both the industrialist and policy maker. The coverage of the questionnaire is limited. Only 5 questions are there in each group and 12 respondents have responded in each group. He has not done any secondary investigation.

He has not studied tax incentives under the income tax but has tried to find out the overall impact of the limited tax incentives to the industries on the basis of his empirical investigation.

His findings are that the tax incentives have important role in the process of industrialization of industry but the tax incentive alone is not sufficient enough to the industrialization process of this country. Various other incentives are complementary to the tax incentives. Effective combination of them would get the desire results.

He has suggested the policy makers to know the view of the industrialists in respect of the 3 years extra holiday provision of the act and take a corrective action to attract them in the areas. But he has not recommended how they can be attracted to those areas. His view is that both the policy makers and the industrialists should go side by side to overcome this problem. He has mentioned that labours are not only the assets on industries but also the assets of this country so; they should be provided incentives for their training. To utilize the labour incentive, awareness in labour is necessary. So, labour awareness program should be provided that could pressurize the industrialists to utilize the tax credit facilities. Otherwise, they do not utilize the tax credit facilities because they think that skilled labour turnover heavily. He has pointed out the need of the monitoring system to know the impact of the tax incentives to the industries, which could find out the causes of the inefficiency of the tax incentives to take the corrective actions required.

Regmi (1986), has presented a dissertation entitled, *"The Role of Income Tax in Nepal"*. In his report, he has described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problems of income tax etc. He has mentioned the objective of income tax as growth objective and stabilization objective. His study was concentrated in the study of tax structure of Nepal. In his study, he has found that the share of indirect tax was more than 70% of total tax revenue in 1981/82. The contribution of direct tax was about 30% of total tax revenue. Within direct tax, the share of income tax was 17.29% in 1972/73 and which increased to 35.68% in 1981/82.

His suggestions are; tax bracket should be widen and bring the various tax payers to the tax net, language of the tax act should be clear and precise, assessment procedure should be improved, procedure of tax payment should be simple and easy, staffs should be honest and efficient, coordination between staffs and department should be maintained, a research center should be established and the tax holiday should be provided to the newly established industries. He has not focused industrial sector but has suggested to given tax holiday to newly established industries.

Paudel (2002), has presented a dissertation entitled, *"Income Taxation in Nepal, a Study of Its Structure and Productivity".* Her study has focused the structure of income tax its elasticity and buoyancy, and role of income tax administration in Nepal. She has found that the contribution of income tax in the GDP is lowest in the SAARC countries, which has shown the poor condition of Nepalese income tax system. The share of indirect tax revenue in the tax revenue is more than the double of the direct tax revenue. She has blamed that income tax procedure of Nepal is based on the traditional system and it should be modernized. She has furthered suggested to broaden the income tax base, reform the tax administration, and implement the VAT, establishment of the standardized accounting system. She also, has not studied the tax incentives and facilities to industries.

Lamsal (2005), has presented a dissertation entitled *"Effectiveness of Remuneration Tax in Nepal".* The objectives of his study were: to identify the major problems and weakness of remuneration tax in Nepal, to check out the, major facilities and benefits provides by Income Tax Act 2058 on the remuneration tax. He has found that contribution of remuneration tax in total income tax revenue of Nepal has not been found satisfactory due to unfair and weal administration, complexity in income tax policy, rules and regulation, no provision of educating any expenditure, it is high burden of tax on low level income earners. He has also found that current exemption limit for the senior and disable citizen should not be necessarily more than that of other citizen.

Ghimire (2007), has presented a dissertation entitled, *"Income Tax in Nepal: Its Structure and Contribution from Public Enterprises to Government Revenue".* His findings are that the contribution of income tax from PEs, semi PEs, private corporate bodies, individuals' tax, remunerations tax and interest to total income tax are 21.26%, 0.60%, 0.12%, 69.23%, 4.38% and 4.42% of income tax in 1982/83 respectively and each are 19.87%, nil, 15.86%, 49.63%, 9.38% and 5.25% of income tax in 2001/02 respectively.

His recommendations to public enterprises are; to better perform, to reduce the tax imposition, to audit the financial statements, to pay tax dues regularly, to maintain the cash flow favourable, to make income transparent etc.

Koirala (2008), has described about *"Effectiveness of Advance Taxation on Income Tax Generation in Nepal"*. The objectives of his study were: To evaluate the feasibility and effectiveness of advance taxation on income tax and overall revenue generation in Nepal, to examine the current position of advance taxation in Nepal. He has found that advance taxation is also one of the tax assessing and tax collecting procedure as per Income Tax Act 2007. Income Tax Act 2002 has absolutely embraced the self assessment system abolishing existing assessment system. Small tax payers are imposed tax on the presumptive system. This Act has made provision of amended assessment to adjust the assessed person's liability to tax. Main source of advance tax is the corporate sector that carries more than 80% of the advance tax and the individual sector carries less than 20% of the advance tax on total advance tax collection. The contribution of the advance tax on total revenue was very poor but contribution on income tax is increasing in recent years.

He has recommended the individual sector should be prompted to pay the advance tax, the corporate sector should be encouraged to pay the advance tax by providing tax incentives., the administration, tax low and provision need to be very simple and clear so it should be amended unclear and some contradictorily provisions as far as possible, government should give the strong attention to impose the existing law rules and policy.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter is related to the methodology applied in the study period of this research. Both the primary and secondary sources of data have been used in this study but the secondary data is too little. The main source of primary data is opinion survey. The respondents of the opinion survey were divided into two groups. The first group is of tax experts and consists of professors, officers Of IRD, tax policy makers, officers of different ministry, chartered accountants, lawyers etc. second group is of tax payers and consists of finance officers, account officers and tax officers of different industries. The main source of secondary data is economic survey of different years. Various statistical tools are used to analyze these data. The main statistical tools used in this study are simple average, percentage, correlation and chi-square test for the hypothesis developed.

3.1 Research Design

This study is mainly based on the primary data and secondary data and the legal provision of incentives and facilities to industries provided by ITA 2058.

3.1.1 Analytical Research

In the analytical research the researcher has evaluated the primary data and secondary data and the incentives and facilities provided by the ITA 2058 to various industries. This research has tried to analyze the tax incentives and facilities to industries on the basis of the research study, personal experience, personal interview with tax experts and the taxpayers.

3.1.2 Descriptive Research

The descriptive research has tried to find out the facts and opinion about the tax incentives and facilities to industries on the basis of opinion surveys and; the facts and information available to the researcher. An investigation has been done to find the facts and related data about the tax incentives and facilities provided by the ITA 2058. Descriptive research is related to this investigation and has described the facts and data.

3.1.3 Empirical Investigation

An empirical investigation has been conducted so as to know the view of different respondents about the tax incentives and deduction facilities provided by the income tax act 2058; to industries and its application in the different sectors.

A set of questionnaire was developed and distributed to the different respondents. The respondents are divided in to two groups viz. tax experts and taxpayers and their views regarding the tax incentives and facilities as well as the suggestions and recommendations have been collected in this investigation.

3.2 Populations and Samples

All the tax experts and the taxpayers available in Nepal are considered as population and the tax experts and taxpayers available in Kathmandu Valley are considered as the targeted population. Out of the targeted population, samples of 60 people have been taken into consideration. The number and type of the samples are presented below.

Table 3.1

Group of Respondents and Sample Size

S.N.	Respondents	Sample Size
1.	Tax Experts	30
2.	Tax Payers	30
Total		60

3.3 Nature and Sources of Data

Both the primary and the secondary data have been used in this study. Very few of secondary data have been used in this study. Unavailability of related secondary data is the main cause of minimum use. The secondary data have the data available in the economic survey and the primary data have been collected from the opinion survey of the tax experts and the taxpayers.

3.4 Selection of the Respondents

A set of questionnaire has been developed and distributed to the various respondents. The respondents are selected judgmentally from the various sectors. They are divided into two groups’ viz. tax experts and taxpayers. The first group includes the experts form various sectors such as chartered accountants, lawyers, professors, policy makers, auditors etc. and taxpayers includes the finance officers, tax officers, account officers, internal auditors etc. of the various manufacturing industries.

3.5 Data Collection Procedure

A set of questionnaire was developed and distributed to the selected respondents. The questionnaire was distributed to various respondents personally. Additional information also has collected from the respondents by personal interview at the time of opinion survey.

3.6 Procedure for Processing and Analysis of Data

First of all, the information and the data received from the various sources are systematically tabulated in separate table and then the statistical tools are used to achieve the desired objectives. The various statistical tools used are: simple average, percentages, average, correlation coefficient, and chi-square for hypothesis test. Some descriptive data are analyzed on the basis of his personal experience, on the basis of study and personal interview.

The hypothesis has been tested to check whether there is significant difference between the view of tax experts and taxpayers. The main tool used is chi-square test.

3.7 Weight of the Choice

Questionnaire has been asked either in the 'yes' or 'no' format or choice format or rank format or to specify. In the rank alternatives, the first choice has got the highest point and the last choice has got lowest point. The total points available to each alternative have been converted into percentage figure. The alternative with the highest percentage has been ranked as most important and the alternative with the lowest percentage has been ranked as the least important. For example, if there are five alternatives, the most important alternative ranked by the respondent has got five points and the least important alternative ranked by the respondents has got one point. The alternative, which is not ranked, has not got any point.

3.8 Respondents' Profile

Questionnaire is developed and distributed to the 80 respondents but received from the 60 respondents only. Each group of respondents consists of 30 respondents. The following table shows the different numbers and percentages of the respondents.

Table 3.2

Respondents' Profile

S.N.	Denominations	Total Sample		Response Receives	
		No.	%	No.	%
1.	Tax Experts	40	50	30	50
2.	Tax Payers	40	50	30	50
Total		80	100	60	100

CHAPTER - IV
DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Secondary Data

This part is devoted to the analysis and presentation of secondary data. The secondary data have been obtained from economic survey and budget speech. The available data have been tabulated and presented into graphs and analyzed to reach at come findings.

4.1.1 Composition of National Revenue

The National revenue in Nepal is composed of both taxes revenue and non-tax revenue when the HMG of Nepal presented first national budget in 1951/52.

Table 4.1 shows the sources of total revenue of government, which includes tax and non-tax revenue from FY 2000/01 to 2007/08. It seems that the share of tax revenue has always been greater than the share of non-tax revenue. This means the heavy contribution of tax always been increasing per year. However the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing government expenditure. In FY 2007/08, the share of tax revenue and non-tax revenue was 81.15% and 18.85% respectively as the compared with 79.13% and 20.69% in the FY 2000/01. This indicates that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing government expenditure. Tax revenue has been placed as a major source of government revenue in Nepal.

The composition of tax revenue from the fiscal year 2000/01 to 2007/08 is given below:

Table 4.1

Sources of National Revenue from FY 2000/01 to 2007/08

(Rs. in million)

Fiscal Year	Total revenue	Tax revenue	Tax revenue as % of total revenue	Non-tax revenue	Non-tax revenue as % of total revenue
2000/01	48464.40	38435.80	79.31	10,028.80	20.69
2001/02	49887.10	38772.10	77.72	11,115.00	22.28
2002/03	55670.70	42027.80	75.49	13,642.70	24.51
2003/04	61631.60	47473.90	77.03	14,158.00	22.97
2004/05	69302.30	53284.30	76.89	16,018	23.11
2005/06	70768.46	57426.99	81.15	13,341.47	18.85
2006/07	84890.16	70046.19	82.51	14,843.97	17.49
2007/08	104939.32	85155.48	81.15	19,783.84	18.85
Estimated data					
2008/09	138371.95	116996.65	84.55	21,375.30	15.45
2009/10	172445.75	150245.64	87.13	22,200.11	12.87

Source: Appendix-II, Master Table

The above table reflects that the tax revenue was gradually increasing in every year since 2000/01 amounting Rs. 38435.80 million to Rs 85155.48 million in the year 2007/08. But the percentage contributes of tax revenue on the total government revenue was trend floating in different. The contribution of tax revenue to total revenue was maximum 82.51% in FY 2006/07 and minimum was 75.49% in FY 2002/03.The non-tax revenue collection was also in the increasing trend in those 10 yrs i.e. Rs 10028.8 million in 2000/01 to 19783.84 million in 2007/08 . The non-tax collection in the 2006/07 was decreased in percentage as compared in the year 2000/01. Than after, it was in the increasing trend.

The tax revenue collection was seen to be in the gradually increasing trend. The contribution portion of not-tax revenue to total revenue was fluctuating during the study period. It was decreased to 17.49% in FY 2006/07 and was increased up to 18.85% in FY 2007/08. Its contribution was 24.51% in FY 2002/03. Taking the 2000/01 as base year the projection has been made for five year. It shows that both the tax and non-tax revenue will increase in the future. It is also clear that major portion of government revenue will be covered by tax revenue.

4.1.2 Composition the Tax Revenue

Tax revenue of composed of direct and indirect tax. The structure of Nepalese tax revenue can be presented in terms of consumption income and capital based tax. Taxes on consumption are known as direct taxes. Custom duties, excise VAT, Entertainment tax, Hotel tax, Air flight tax, Road and bridge maintenance tax, Vehicle tax and contract tax are included in the indirect tax. Similarly, income tax, interest tax, wealth tax and other tax as are included in direct tax. The composition of Nepalese tax revenue is presented in the table 4.2 in terms of direct and indirect tax revenue from FY 2000/01 to 2007/08.

Table 4.2

Structure of Tax Revenue from Fiscal Year 2000/01 to2007/08

(Rs. In Million)

Fiscal Year	Total tax revenue	Total direct tax	% share of direct tax to total tax	Total indirect Tax Revenue	% share of indirect tax to total tax revenue
2000/01	38435.8	9730.1	25.32	28705.7	74.68
2001/02	38772.1	10039	25.89	28733.1	74.11
2002/03	42027.8	9546.6	22.71	32481.2	77.29
2003/04	47473.9	11213.15	23.62	36260.4	76.38
2004/05	53284.3	12251.2	22.99	41032.9	77.01
2005/06	57426.99	13961.5	24.31	43465.49	75.69
2006/07	70046.19	18393	26.26	51652.19	73.74
2007/08	85155.48	23087	27.11	62067.48	72.89
Estimated data					
2008/09	116996.65	35787	30.59	81209.65	69.41
2009/10	150245.64	45798	30.48	104447.64	69.52

Source: Appendix-II, Master Table

From the above table, we find that has been simultaneous increase in direct, indirect tax and total tax revenue in absolute terms. In 2000/01, these amount were Rs. 9730.1 million, Rs 28705.7 million and Rs. 38435.8 million respectively and during the period of seven years these amount became Rs 23087 million, Rs 62067.48 million and Rs 85155.48 million respectively.

Despite of absolute increment of direct tax, its contribution to total tax revenue in 2000/01 was 25.32%, which increased up to 25.89% in the FY 2001/02. But the direct tax contribution percentage to total tax revenue was decreased down to 22.71%, in FY 2002/03 and it slightly increased up to 27.11% in the FY 2007/08. The contribution of indirect tax in 2000/01 was 74.68% and it was decreased down to 74.11% in FY 2001/02. After than, it was increased to 77.29% in FY 2002/03. It was gradually decreased from the F/Y 2004/05 up to F/Y 2007/08.

The above forecasted data reflects that the total direct tax revenue will increase in the future. The total amount of indirect tax will increase in the future. The total amount of indirect tax will increase but its percentage to total revenue will decrease. The direct tax revenue will be Rs 35787million and Rs 45798 million, for the FY 2008/09 and 2009/10 respectively with the contribution of 30.59% and 30.48% respective year. Likewise the indirect tax revenue will also increase to Rs 81209.65 million and Rs 104447.64 million for FY 2008/09 and 2009/10 respectively with the contribution percentage of 69.41% and 69.52% for the respective year.

Comparing direct and indirect tax, it reveals that the heavy reliance of economy is on direct taxation. An indirect tax is considered regressive in nature; the tax structure of Nepal is not justifiable on equity ground and progressiveness. So to direct the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore the attention should be paid on the sufficient resource mobilization through internal sources.

4.1.3 Composition of Direct Tax

The major components of direct tax are income tax, house and land registration tax and house land & property Tax. The share of major components of direct tax is given in the following table.

Table 4.3

Structure of Direct Tax and Their Percent to Direct Tax

(Rs. Million)

Fiscal Year	Direct Tax	Total %	Income Tax	IT as % of DT	House and Land Regd.	H & L % of DT	House Land & property Tax	% of DT
2000/01	9730.1	100	9114.3	93.67	607.8	6.25	2.9	0.03
2001/02	10039.1	100	8905	88.70	1131	11.27	2.3	0.02
2002/03	9546.6	100	8132.3	85.19	1414.3	14.81	0	0
2003/04	1213.15	100	9515.65	84.86	1697.5	15.14	0	0
2004/05	12251.4	100	10452.2	85.31	1799.2	14.69	0	0
2005/06	13961.5	100	10933.5	78.31	3027.98	21.69	0	0
2006/07	18393	100	14607	79.42	3786	20.58	0	0
2007/08	23087	100	15529	67.26	7558	32.74	0	0
Estimated data								
2008/09	35787	100	27547	76.97	82400	23.02	0	0
2009/10	45798	100	32532	71.03	13266	28.97	0	0

Source: Appendix-II, Master Table

Table 4.3 shows that the contribution of income tax to direct was higher than other tax and it occupied the largest share in the direct tax. The percentage share of income to direct tax in FY 2000/01 was 93.67% which gradually decreased into 84.86% in FY 2003/04. Regular fluctuating in contribution percent of income tax to direct tax is not satisfactory. It needs to increase by widening the tax net.

The share of house and land registration tax in the FY 2000/01 was 6.25% which gradually increased to 32.74% in the FY 2007/08. Urban house and land rent contribution was 0.03% in FY 2000/01, which was fluctuated over the seven years and decreased to zero percent since 2002/03.

It predicts that composition of direct tax will be dominated by income tax. The total income tax and its contribution to direct tax will also increase in the future. But house and land registration tax and urban house and rent tax collection will decrease in the future.

Figure 4.1

Contribution of Tax Revenue, Direct Tax and Income Tax to National Revenue

The figure 4.1 shows the contribution of tax revenue, direct tax and income tax upon the national revenue. Income tax contribute much more in comparisons to tax revenue and direct tax

4.2 Empirical Investigation

4.2.1 Introduction

The effectiveness of this thesis is highlighted by the opinion survey. Thus, the main portion of the investigation depends upon the view of respondents rather than secondary data. This investigation has been conducted for the purpose of in sighting in the depth of tax incentive, tax planning and correlation between these two terms in the context of Nepalese industries and current legal and business environment. For which, questionnaires have been developed and responses collected from the respondents. A set of 60 questionnaires has been received from the respondents out of the 80 questionnaires distributed to various respondents. Respondents have been classified into two groups' viz. tax experts (includes professors and lecturers of tax, auditors, tax administrators, tax officers and tax researchers etc.) and taxpayers (includes proprietors, auditors, financial managers etc. of different industries of Kathmandu). The responses received from various respondents have been arranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of this study (See the format of questionnaire in appendix I).

The questionnaire has been asked either for a yes/no response or choice alternatives or ranking of the alternatives. In the choice alternatives, the first choice has the most important and the last choice has the least important. The choices among the ranking alternatives have been assigned weights according to the number of alternatives. If the number of alternatives has seven, the first choice has got seven points and the last preferred choice has got one point. Any alternative, which has not ranked, got no points. The total points available to each choice have been converted into percentages with reference to the total points available for all choices. The choice with the highest percentage score has been ranked as the most important choice and the one with the lowest percentage score has been ranked as the last choice.

The following table shows the groups of respondents.

Table 4.4

Groups of the Respondents

S.N.	Groups of Respondents	Sample Size
1.	Tax experts	30
2.	Tax payers	30
	Total	60

Table 4.5

Sufficiency of Tax Incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	23	77	7	23	30	100
Tax Payers	14	24	16	53	30	100
Total	37	62	23	38	60	100

Source: Opinion Survey

From the above table, it is seen that 62 percentages of the respondents have viewed that ITA 2058 has provided sufficient tax incentives. 77 present of the tax exports think that tax incentives are enough but tax payer are not satisfied with the incentives provided by the ITA 2058 as tax experts are. Only 14 present of the tax payer are satisfied with the given incentives and facilities.

Some of the respondents has mentioned that tax incentives does not play major role in attracting new industries instead of tax incentives; other factors such as infrastructure, availability of market, political stability, industrial culture, availability of capital etc. play major role in attracting industries. If this facilities are available sufficiently than tax incentives may play role in attracting industries.

Test of Hypothesis

Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	23	7	30
Tax Payers	14	16	30
Column Total	37	23	60

Source: Table 4.5

Null Hypothesis, H_0: There is no significant difference of the view between tax experts and taxpayers, regarding the tax incentives provided by ITA 2058.

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers, regarding the tax incentives provided by ITA 2058.

Test statistics: Under H_0, the test statistic is

$$\chi^2 = \Sigma \frac{(f_o \ Z f_e)^2}{f_e}$$

Where, f_o=Observes frequency

f_e=Expected frequency= $\frac{\text{Row Total x Column Total}}{\text{Grand Total}}$

Test of Hypothesis

Calculation of χ^2:

(Row, Column)	f_0	f_e	f_0-f_e	$(f_0\text{-}f_e)^2$	$\frac{(f_o \; Z f_e)^2}{f_e}$
(1,1)	23	=18.5	4.5	20.25	1.095
(1,2)	7	$\frac{30x23}{60}$ =11.5	- 4.5	20.25	1.76
(2,1)	14	$\frac{30 \mid 37}{60}$ =18.5	4.5	20.25	1.095
(2,2)	16	$\frac{30x23}{60}$ =11.5	- 4.5	20.25	1.76
					$\Sigma \frac{(fo \; Z \; fe)2}{fe}$ =5.71

Calculated $\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e}$ = 5.71

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α = 5%= 0.05

Tabulated χ^2 0.05(1)=3.841

Since calculated χ^2 > tabulated χ^2, therefore the null hypothesis is rejected. So, there is significant difference between the view of tax experts and the taxpayers regarding the tax incentives provided by ITA 2058.

The real incentives user is tax payer. So, in the conclusion, it can be said that however major facilities are provided by ITA are seems to be sufficient but further incentives and scientific dealing is still required which help to exercise the incentives.

Table 4.6

Tax Planning as a tool of Reducing Financial Burden

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	22	73	8	27	30	100
Tax Payers	21	70	9	30	30	100
Total	43	71	17	29	60	100

Source: Opinion Survey

Above table shows that, it is clearly understood that most of the respondents agree that tax planning is a tool to minimize the financial burden. Only 27 presents of the tax experts and 30 presents of the tax payers are against to the arguments which show that both tax experts and tax payers understand the importance of tax planning.

Test of Hypothesis

Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	22	8	30
Tax Payers	21	9	30
Column Total	43	17	60

Source: Table 4.6

Null Hypothesis, H_0: There is no significant difference of the view between tax experts and taxpayers, regarding the argument of tax planning as a tool of reducing financial burden.

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers, regarding the argument of tax planning as a tool of reducing financial burden.

Test statistics: Under H_0, the test statistic is

$$\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e}$$

Where,

f_o=Observes frequency

f_e=Expected frequency= $\frac{\text{Row Total x Column Total}}{\text{Grand Total}}$

Test of Hypothesis

Calculation of χ^2:

(Row,Column)	f_0	f_e	f_0-f_e	$(f_0-f_e)^2$	$\frac{(f_o Z f_e)^2}{f_e}$
(1,1)	22	=21.5	0.5	0.25	0.012
(1,2)	8	$\frac{30x17}{60}$ =8.5	- 0.5	0.25	0.029
(2,1)	21	$\frac{30x43}{60}$ =21.5	0.5	0.25	0.012
(2,2)	9	$\frac{30x17}{60}$ =8.5	-0.5	0.25	0.029
					$\Sigma \frac{(fo\,Z\,fe)2}{fe}$

Calculated $\chi^2 = \Sigma \frac{(f_o Z f_e)^2}{f_e}$ =0.082

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α= 5%= 0.05

Tabulated χ^2 0.05(1) = 3.841

Since calculated χ^2 < tabulated χ^2, The null hypothesis is accepted Therefore, there is no significant difference between the view of tax experts and the taxpayers regarding the argument of tax planning as a tool of reducing financial burden.

Hence, it can be concluded that most of the tax experts and tax payers can understand the term tax planning and they imagine that tax planning minimizes the tax amount or tax burden to be paid to government. It also signifies that various industrial organization have planned tax.

Table 4.7

Sufficient Scope of Tax Planning in Industrial Organizations

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	11	37	19	63	30	100
Tax Payers	3	10	27	90	30	100
Total	14	23	46	77	60	100

Source: Opinion Survey

From the above table, it is understood that about 23 percentages of the respondents have accepted that sufficient scope of tax planning is provided by Present ITA. Seventy seven percentages of the respondents have not agreed that the sufficient scope of tax planning is provided by Present ITA.

Test of Hypothesis

Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	11	19	30
Tax Payers	3	27	30
Column Total	14	46	60

Source: Table 4.4

Null Hypothesis, H_0: There is no significant difference of the view between tax experts and taxpayers'; regarding sufficient scope of tax planning that is provided by Present ITA

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers'; sufficient scope of tax planning that is provided by Present ITA

Test statistics: Under H_0, the test statistic is

$$\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e}$$

Where,

f_o=Observes frequency

f_e=Expected frequency=$\frac{\text{Row Total} \mid \text{ColumnTotal}}{\text{Grand Total}}$

Test of Hypothesis

Calculation of χ^2:

(Row, Column)	f_0	f_e	f_0-f_e	$(f_0\text{-}f_e)^2$	$\frac{(f_o \ Z f_e)^2}{f_e}$
(1,1)	11	$\frac{30x14}{60}=7$	4	16	2.29
(1,2)	19	$\frac{30x46}{60}=23$	- 4	16	0.7
(2,1)	3	$\frac{30x14}{60}=7$	-4	16	2.29
(2,2)	27	$\frac{30x46}{60}=23$	4	16	0.7
					$\Sigma \frac{(fo \ Z \ fe)2}{fe}$ =5.98

Calculated $\chi^2 = \Sigma \frac{(f_o \ Z f_e)^2}{f_e}$ =5.98

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α = 5%= 0.05

Tabulated χ^2 0.05(1) = 3.841

Since calculated χ^2 > tabulated χ^2, the null hypothesis is rejected. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding sufficient scope of tax planning that is provided by Present ITA.

Table 4.8

The Incentives That Are Provided by ITA to the industries

Alternatives	Tax Expert	Tax payer
Pollution Control Cost	27	6
Research and Development Cost	23	3
Location Decision	39	4
Capital Budgeting(Depreciation)	41	16
Carry Forward of Loss	37	12
Inter head Adjustment	7	2
Others	6	1

Calculation of Rank Correlation Coefficient

S.N.	Alternatives	T.E. (X)	T.P. (Y)	Rank For X (R_1)	Rank For Y (R_2)	D= R_1-R_2	D^2
1.	Pollution Control Cost	27	6	4	3	1	1
2.	Research and Development Cost	23	3	5	5	0	0
3.	Location Decision	39	4	2	4	-2	4
4.	Capital Budgeting(Depreciation)	41	16	1	1	0	0
5.	Carry Forward of Loss	37	12	3	2	1	1
6.	Inter head Adjustment	7	2	6	6	0	0
7.	Others	6	1	7	7	0	0
							$D2\ X6$

(Note: X refers to tax experts and Y refers to taxpayers)

We have formula,

$$r=1-\frac{6\quad D2}{n(n2\ Z1)}$$

$$=1-\frac{6x6}{7(7\ |\ 7-1)}$$

$$=0.97$$

Since, the rank correlation coefficient is higher i.e. 0.97, there is higher correlation between the views of tax experts and taxpayers regarding incentives provided by ITA. So, it can be concluded that most of the satisfied respondents with the incentives provided by ITA think that Capital budgeting, carry forward of loss, PCC and R&D

have enough incentives respectively. They have given less value to inter head adjustment and other topic. The researcher wants to disclose that only 55% have ranked their responses.

Some of the respondents have responded the other tax incentives in the tax incentives which are as follows:

- Tax rate of 20% to industries instead of normal tax rate of 25% itself is the tax incentives
- Donation given to certain tax exempted organization
- Repair and Improvement expenses

Table 4.9

Positive Relation between Tax Planning and Tax Incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	18	60	12	30	30	100
Tax Payers	26	87	4	13	30	100
Total	44	73	16	27	60	100

Source: Opinion Survey

From the above table, it can be said that most of the respondents agree that tax incentives are closely related with tax planning. It is seen that the 67% of the tax experts and 87% of the tax payers are satisfied with the argument. In total 77% of the respondents think that tax incentives and tax planning are closely related each other and they have positive correlation.

Test of Hypothesis:

Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	18	12	30
Tax Payers	26	4	30
Column Total	44	16	60

Source: Table 4.9

Null Hypothesis, H_0: There is no significant difference of the view between tax experts and taxpayers, regarding the relation of tax incentives and tax planning.

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers regarding the relation of tax incentives and tax planning Test statistics: Under H_0, the test statistic is

$$\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e}$$

Where, f_o= Observes frequency

f_e= Expected frequency = $\frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}}$

Test of Hypothesis:

Calculation of χ^2:

(Row, Column)	f_0	f_e	f_0-f_e	$(f_0\text{-}f_e)^2$	$\frac{(f_o \; Z f_e)^2}{f_e}$
(1,1)	18	=22	- 4	16	0.73
(1,2)	12	$\frac{30x16}{60}$ =8	4	16	2
(2,1)	26	$\frac{30x44}{60}$ =22	4	16	0.73
(2,2)	4	$\frac{30 \; x16}{60}$ =8	- 4	16	2
					$\Sigma \frac{(f_o \; Z f_e)^2}{f_e}$ =5.46

Calculated $\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e}$ =5.46

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α = 5%= 0.05

Tabulated χ^2 0.05(1)=3.841

Since, tabulated χ^2 <calculated χ^2. The null hypothesis is rejected i.e. alternative hypothesis is accepted. So, there is no significant difference between the views of tax experts and the taxpayers regarding the relation of tax incentives and tax planning.

So, it can be concluded that the opinion towards the relation of tax incentives and tax planning is same. Both tax experts and tax payers accept that tax incentive is a prime factor to influence the tax planning and off course they have positive relation.

Table 4.10

Additional Requirement of Tax Incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	10	33	20	67	30	100
Tax Payers	27	90	3	10	30	100
Total	37	62	23	38	60	100

Source: Opinion Survey

In above table , it can be seen that 62% of the respondent have viewed that additional tax incentives is required to increase the scope of tax planning. However, only 33% of the tax experts imagine that additional tax incentives are needed. But 62% of the respondents' positive response shows that they are highly expecting the further incentives.

Test of Hypothesis:

Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	10	20	30
Tax Payers	27	3	30
Column Total	37	23	60

Source: Table 4.10

Null Hypothesis, H_0: There is not significant difference of the view between tax experts and taxpayers, regarding the requirement of additional tax incentives to increase the scope of tax planning.

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers, regarding the requirement of additional tax incentives to increase the scope of tax planning.

Test statistics: Under H_0, the test statistic is

$$\chi^2 = \Sigma \frac{(f_o \, Z f_e)^2}{f_e}$$

Where,

f_o=Observes frequency

f_e=Expected frequency= $\frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}}$

Calculation of χ^2:

(Row, Column)	f_0	f_e	f_0-f_e	$(f_0\text{-}f_e)^2$	$\frac{(f_o \, Z f_e)^2}{f_e}$
(1,1)	10	=18.5	- 8.5	72.5	3.91
(1,2)	20	$\frac{30x23}{60}$ =11.5	8.5	72.5	6.30
(2,1)	27	$\frac{30x37}{60}$ =18.5	8.5	72.5	3.91
(2,2)	3	$\frac{30x23}{60}$ =11.5	- 8.5	72.5	3.91
					$\Sigma \frac{(f_o \, Z f_e)^2}{f_e}$ =20.42

Calculated $\chi^2 = \Sigma \frac{(f_o \, Z f_e)^2}{f_e}$ = 20.42

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α = 5%= 0.05

Tabulated χ^2 0.05(1) =3.841

Since calculated χ^2 > tabulated χ^2. The null hypothesis is rejected. Therefore, there is significant difference of the view between tax experts and taxpayers regarding the requirement of additional tax incentives to increase the scope of tax planning.

So, it can be concluded that the opinion of tax exports and tax payers towards requirement of tax incentives is not same however both of them desire for the additional tax incentives.

The comments that are provided by the respondents are as follows:-

- Sufficient export incentives should be provided to the export industries.

- Incentives should be provided on the basis of the contribution of the industries in the government revenue.
- As equal as industrialist, incentives should be provided to the traders who export the Nepalese products on abroad.
- Tax rate to industry should be 10% only.
- More incentives and facilities should be provided to the Agro based industry.
- The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded, e.g. tax rebate, tax holidays, financial reward, loan facilities, etc.
- Tax rate of banking and financial should be reduced to normal rate of 20% only. The economic development of any country is ensured when there is developed financial sector but in Nepal the financial sector is still not developed so much, what it should be.
- Tourism industries may be the major earner of the foreign exchange and the industries related to the tourism should be provided more incentives and facilities.

Various respondents have responded about other tax incentives requirement in such a manner the tax incentives should be increased in those industries which the respondents belongs to. For instance, the banker said that the tax incentives to banking sector should be increased; exporter said the tax incentives to exports should be increased.

Table: 4.11

Opinions about the Causes of not widely Using of Tax Planning

Alternatives	Tax Experts	Tax Payers
Tax planning is complicated and boring	51	32
Tax planning requires professional manpower	51	30
Tax planning is lengthy and costly	47	67
Tax administration is not co-operative	71	80
People are unaware about tax planning	56	78
There are no more big industries in Nepal	22	9
Tax incentives are not enough	18	9
Others	15	8

Calculation of Rank Correlation Coefficient

S.N.	Alternatives	T.E. (X)	T.P. (Y)	Rank For X (R_1)	Rank For Y (R_2)	D= R_1-R_2	D^2
1.	A	51	32	4	3	1	1
2.	B	51	30	5	5	0	0
3.	C	47	67	2	4	-2	4
4.	D	71	80	1	1	0	0
5.	E	56	78	3	2	1	1
6.	F	22	9	6	6	0	0
7.	G	18	9	7	7	0	0
8.	H	15	8	8	8	0	0
							$D2$ X6

(Note: X refers to tax experts and Y refers to taxpayers)

Where,

A = Tax planning is complicated and boring

B = Tax planning requires professional and highly qualified manpower

C = Tax planning is lengthy and costly

D = Tax administration is not co-operative

E = People are unaware about tax planning

F = There are no more big industries in Nepal

G = Tax incentives are not enough

H = Others

We have formula,

$$r = 1 - \frac{6\sum D^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6x6}{8(8X8-1)} \qquad = 0.93$$

Since, the rank correlation coefficient is higher i.e. 0.93, there is higher correlation between the views of tax experts and taxpayers regarding incentives provided by ITA. So it can be said from the respondents' view that the most important reason that tax planning is not widely used in Nepal is that tax administration is not cooperative, the next most important reason is “People are unaware about tax planning” than that of “Tax planning is lengthy and costly” and so on.

In addition to above mentioned tax causes, respondents have responded the following causes that negatively affected tax planning:

- tax evasion and tax voidance are highly practiced in Nepal
- people think tax as a burden rather than their responsibility, so they used to practice tax evasion and avoidance rather than tax planning
- lack of tax planning culture
- lack of transparent accounting system; if there is transparent accounting system they can not practice tax evasion and avoidance and the only one option remained is tax planning
- tax administrators are corrupted; so they encourage the tax payers in evasion and avoidance of tax for their personal benefit
- people think tax is misused; income from the tax are not used in productive and social sector instead they are used in purchasing arms and weapons and also used in the personal benefit of the political leaders and bureaucratic persons. So, instead of tax planning they prefer tax evasion and tax avoidance.

Table 4.12

Difficulties to Plan Tax because of Complicated or Impractical Tax Incentives

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	16	53	14	47	30	100
Tax Payers	20	67	10	33	30	100
Total	36	60	24	40	60	100

Source: Opinion Survey

In above table, it can be seen that 60% of the respondent have viewed that there are lots of difficulties to plan tax because of complicated or impractical tax incentives However, 47% of the tax experts and 33% of the tax payers have viewed that there is no difficulty to plan tax because of complicated or impractical tax incentives provided by ITA 2058.

Test of Hypothesis:

Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	16	14	30
Tax Payers	20	10	30
Column Total	36	24	60

Source: Table 4.12

Null Hypothesis, H_0: There is not significant difference of the view between tax experts and taxpayers, regarding the difficulties to plan tax because of complicated or impractical tax incentives.

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers, regarding difficulties to plan tax because of complicated or impractical tax incentives.

Test statistics: Under H_0, the test statistic is

$$\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e}$$

Where, f_o=Observes frequency

f_e=Expected frequency= $\frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}}$

Test of Hypothesis:

Calculation of χ^2:

(Row, Column)	f_0	f_e	f_0-f_e	$(f_0-f_e)^2$	$\frac{(f_o \; Z f_e)^2}{f_e}$
(1,1)	17	$\frac{30x36}{60}$ =18	- 1	1	0.055
(1,2)	13	$\frac{30x24}{60}$ =12	1	1	0.083
(2,1)	20	$\frac{30x36}{60}$ =18	1	1	0.055
(2,2)	10	$\frac{30x24}{60}$ =12	- 1	1	0.083
					$\Sigma \frac{(f_o \; Z f_e)^2}{f_e}$ =0.276

Calculated $\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e} = 0.276$

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α = 5%= 0.05

Tabulated χ^2 0.05(1) =3.841

Since calculated χ^2 < tabulated χ^2. The null hypothesis is accepted. Therefore, there is no significant difference of the view between tax experts and tax payers regarding difficulties to plan tax because of complicated or impractical tax incentives.

So, it can be concluded that the opinion of tax exports and tax payers towards requirement of tax incentives is same and both of them think that there are certain difficulties to plan tax because of complicated or impractical tax incentives.

Table 4.13

Helpfulness of Tax Incentives Provision for Making Tax Planning

Alternatives	No. of respondent	%
a. Very much	4	7
b. Sufficient	20	33
c. Somehow	35	58
d. Not at all	1	2
Total	60	100

Source: Opinion Survey

The above table clearly shows that most of the respondents are not satisfied with the argument related to present tax incentive which has helped to plan tax in industrial sector. 58% of the respondent think that current tax incentives has helped somehow to plan tax and only 33% of the respondents argue that the current tax incentives is sufficient. One respondent is very pessimistic and four respondents are very optimistic who feel that the present tax incentives are very much helpful to plan tax. Thus, it can be concluded that current tax incentive is not enough helpful to plan tax.

Table 4.14

Opinion about Facilities to Invest in Rural Areas of Nepal

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	19	63	11	37	30	100
Tax Payers	11	37	19	63	30	100
Total	30	50	30	50	60	100

Source: Opinion Survey

Above table shows that 63% of the tax experts and 37% of the tax payers accept that the facilities has initiated enough to invest in rural areas of Nepal in respect to tax planning. In overall, 50% only of the respondents have accepted and remaining 50% have not accepted.

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	19	11	30
Tax Payers	11	19	30
Column Total	30	30	60

Source: Table 4.14

Null Hypothesis, H_0: There is no significant difference of the view between tax experts and taxpayers, regarding provision to initiate investing in rural areas of Nepal or extant the scope of tax planning.

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers, regarding provision to initiate investing in rural areas of Nepal or extant the scope of tax planning.

Test statistics: Under H_0, the test statistic is

$$\chi^2 = \Sigma \frac{(f_o \; Z f_e)^2}{f_e}$$

Where, f_o=Observes frequency

f_e=Expected frequency= $\frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}}$

Test of Hypothesis:

Calculation of χ^2:

(Row, Column)	F_0	f_e	f_0-f_e	$(f_0-f_e)^2$	$\frac{(f_o \; Z f_e)^2}{f_e}$
(1,1)	19	$\frac{30x30}{60}$ =15	4	16	1.07
(1,2)	11	$\frac{30x30}{60}$ =15	-4	16	1.07
(2,1)	19	$\frac{30x30}{60}$ =15	4	16	1.07
(2,2)	11	$\frac{30x30}{60}$ =15	-4	16	1.07
					$\Sigma \frac{(f_o \; Z f_e)^2}{f_e}$ =4.28

Calculated $\chi^2 = \Sigma \frac{(f_o \text{ Z} f_e)^2}{f_e}$ =4.28

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α = 5%= 0.05

Tabulated χ^2 0.05(1)=3.841

Since calculated χ^2 >tabulated χ^2, the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding provision to initiate investing in rural areas of Nepal.

Conclusion: It can be concluded that tax experts and administrators agree that the provision provided by ITA is enough to initiate investing in rural areas of Nepal but the tax payers do not agree with this argument.

Table 4.15

Tax Planning Trend in Industrial Sector of Nepal

Respondents	Tax Experts		Tax Payers		Column Total	
Responses	Number	%	Number	%	Number	%
Not at all	0	0	2	7	2	3
Too little	12	40	17	56	29	48
To some extant	16	53	9	30	25	42
Significantly	2	7	2	7	4	7
Extremely	0	0	0	0	0	0
Row Total	30	100	30	100	60	100

Source: Opinion Survey

From the above table, it is seen that most of the respondents think the tax planning is not widely used tool in Nepal. Tax payers are more pessimistic than tax experts. In total, 48% viewed 'Too little' and 42% viewed 'To some extent' in the use of tax planning. 0% of the tax experts have voted for 'Extreme' use of tax planning and to 'Not at all'. Only 7% of the respondents viewed that tax planning is 'Extremely' used in Nepal.

At last, it can be concluded that no tax payers and tax experts agree that neither tax is not planned at all nor planned extremely.

Table 4.16

Opinion about 10 Yrs. Tax Rebate Period

Alternatives	Yes		No		Total
	No	%	No	%	
Tax Experts	18	60	12	40	30
Tax Payers	5	17	25	83	30
Total	23	38	37	62	60

Source: Opinion Survey

From the above table, it is clear that 60% of the tax experts agree that the 10 years rebate is sufficient but only 17% of tax payers agree with this view. In total, 38% of the respondents agree that 10 years rebate period is sufficient but 62 % do not agree.

Test of Hypothesis:

Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Experts	18	12	30
Tax Payers	5	25	30
Column Total	23	37	60

Source: Table 4.16

Null Hypothesis, H_0: There is no significant difference of the view between tax experts and taxpayers, regarding sufficiency of 10 years tax rebate period.

Alternative Hypothesis, H_1: There is significance difference of the view between tax experts and taxpayers, regarding sufficiency of 10 years tax rebate period.

Test statistics: Under H_0, the test statistic is,

$$\chi^2 = \Sigma \frac{(f_o \, Z f_e)^2}{f_e}$$

Where, f_o=Observed frequency

f_e=Expected frequency= $\frac{\text{Row Total} \mid \text{Column Total}}{\text{Grand Total}}$

Test of Hypothesis:

Calculation of χ^2:

(Row, Column)	f_0	f_e	f_0-f_e	$(f_0-f_e)^2$	$\frac{(f_o Z f_e)^2}{f_e}$
(1,1)	20	=12.5	6.5	42.25	3.67
(1,2)	12	$\frac{30x37}{60}$ =18.5	-6.5	42.25	2.28
(2,1)	5	$\frac{30x23}{60}$ =11.5	-6.5	42.25	3.67
(2,2)	25	$\frac{30x37}{60}$ =18.5	6.5	42.25	2.28
					$\Sigma\frac{(f_o Z f_e)^2}{f_e}$ =11.90

Calculated $\chi^2 = \Sigma\frac{(f_o Z f_e)^2}{f_e}$ =11.90

Degree of freedom = (r-1)(c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, α = 5%= 0.05

Tabulated χ^2 0.05(1)=3.841

Since calculated χ^2 >tabulated χ^2, the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding sufficiency of 10 years tax rebate period.

Table 4.17

Opinion Regarding Required Tax Rebate Period

Alternatives (in yrs.)	Tax Experts		Tax Payers		Total
	No	%	No	%	
15	5	42	1	4	6
20	3	25	1	4	4
25	3	25	2	8	5
30	1	8	5	20	6
Others*	0	0	16	64	16
	12	100	25	100	37

Source: Opinion Survey

*Includes more than 30 years

From the above table it is clear that most of the negative respondent tax expert opinion is that the tax rebate period should be 15 years. In opposition to the tax experts, most of the tax payers has respondent the tax rebate period should be more than 30 years.

Note: Although the questionnaire was developed on the basis of the ITA 2058 and analyzed as well, the rebate for the newly established industries (except negative listed industries) which are operating in 22 remote districts has changed into fully exemption for 10 years by the budget speech of 2066/67.

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Table 4.18

Opinion Regarding the Other Industry which should be included in Special Industry

Alternatives	Tax Experts		Tax Payers		Total
	No	%	No	%	
Yes	3	10	7	23	7
No	27	90	23	77	53
Total	30	100	30	100	60

Source: Opinions Survey

From the above table, it is seen that only 10% tax experts think that other industry also should be included in special industry whereas 23% percent of the tax payers have said that there are other industries which should be included in special category.

4.3 Major Findings

On the basis of data presentation and analysis in above mentioned sub-chapters some important findings of the study are summarized below.

1. The study shows the composition of total revenue of government was tax revenue, direct tax and income tax 70% 20% and 15% respectively in FY2005/006. It shows that taxation has been a major source of government revenue. But the contribution of tax revenue was in the increasing trend.
2. Income tax has been considered as suitable source for the mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop the economic conditions of Nepalese people and promote distribute justice and to cure resource gap problem

3. From the opinion survey with various respondents i.e. tax experts and taxpayers the following finding has been drawn:
   a. The incentives and facilities provided by ITA are seems to be sufficient.
   b. Tax planning is a tool of reducing financial burden. The industrialist can understand the term tax planning and they imagine that tax planning minimizes the tax amount or tax burden to be paid to government. It also signifies that various industrial organization have planned tax.
   c. Sufficient scope of tax planning is not provided by Present ITA.
   d. Tax incentives and tax planning are closely related each other and they have positive correlation because tax incentive encourages tax planning
   e. Additional tax incentives are required to increase the scope of tax planning. To encourage export industries, to highlight the agro based industries; to stabilize the tourism industries further incentives are needed.
   f. The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded, e.g. tax rebate, tax holidays, financial reward, loan facilities, etc.
   g. The most important reason that tax planning is not widely used in Nepal is that tax administration is not cooperative, the next most important reason is people are unaware about tax planning then tax planning is lengthy and costly and so on.
   h. There are lots of difficulties to plan tax because of complicated or impractical tax incentives. They are:-
      - ITA 2058 has no clear provision regarding tax planning.
      - To derive actual deductible pollution control cost and R&D cost is difficult. Complexity in calculation has made it impractical.
      - The rebate period of 10 years is seems to be impractical because the actual benefit from the short rebate period is less than the opportunity cost.
      - Tax management and administration.
      - Tax planner feels impractical tax benefits, tax concessions, etc.
   i. Current tax incentive is not enough helpful to plan tax.
   j. There is different argument of the respondents about the view of the facilities and incentives that have initiated enough to invest in rural areas of Nepal in

respect to plan tax. Fifty percent of the respondents think that there are sufficient facilities to invest in the rural areas and rest think not enough.

k. In the Nepalese industries, neither tax is not planned at all nor planned extremely.

l. 10 years tax rebate is not sufficient to increase the scope of tax planning in the remote area for the special industries.

m. Tax concession of 20%, 25% and 30% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient and it should be increased to 30%, 50% and 100% respectively.

n. Tourism and its related industries, communication network business, hydropower sector, software development business, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.

o. 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Revenue is the lifeblood of any state and tax is one of the most important income sources of any country, which directly affects the economic system of the society. With tax, the government not only collects money but also regulates all the business organizations. To reduce the poverty of country, it is very compulsory to grow up the industries. Up to now, Nepal is following traditional agriculture based industry and other disciplines have very low contribution to GDP. Industrialization is fundamental need to develop the country, for this purpose tax system should be practical and effective. Tax system should be initiative to establish new industry and facilitative to continue the business for long term. Tax shouldn't be as a tax burden to the people imposed by the state. It should feel as a moral responsibility and prestigious task.

In the developing country, such as Nepal if the government doesn't play vital role to establish the new industry it seems to be impossible because of high risk and low chance to grow up. Nepal has very few of big industries and little more of cottage and small industries. Due to lack of encouraging law and act of government new industries are not establishing and old also are not running well.

It is necessary to develop industries to increase the economic status of the country. For the expansion of industries, conducive environment is necessary to attract the industries. Government needs to provide such environment. Various incentives and subsidies should be provided to the investors. Those incentives encourages in the establishment of new industries and operation of existing industries. Among the various incentives, income tax incentive is also a major one to attract the investors.

Nepal has been practicing various tax incentives programs but still the industrialization process is very slow. As previous acts, the Income Tax Act (ITA) 2058 has provided various tax incentives and facilities to industries to attract the investment. However, the number of new industries is very poor.

A tax is a compulsory contribution by a person to the government without having any direct benefit for the payment. Especially, the direct tax is a burden to the taxpayer because it is not shift able. Since it is painful, every one wants to reduce the tax liabilities as far as possible. Planning is the way of making systematic and easy of any task previously. So, tax incentives are the main factors to encourage or promote tax planning and ultimately to promote the business and the industries of any country.

Various books, articles, dissertations and other reference materials are reviewed in the course of this study. Almost all of the books are of descriptive in nature and fully based on the course of various level of syllabus. No one has studied in the incentives and facilities and its impact on tax planning under ITA 2058 to industries. So, the researcher has selected the unique topic to study.

Various incentives of the income tax to industries have been studied to find out the impact of these incentives on tax planning to the industries. Meaning of tax, classification of taxes, heads of incomes, concept of tax incentive and facilities, concept, feature, scope of tax planning etc. Have been studied in Conceptual Framework of this study.

Mostly this study is based on primary data and very few of secondary data has been used in this study. Minimum use of secondary data is due to the unavailability of related material in secondary sources. The primary data is based on opinion survey of various two groups' viz. tax experts and taxpayers. Tax experts consist of Chartered Accountants, Lawyers, Policy makers at Ministry of Finance and Professors and Readers of university. Taxpayers include finance officers, accountant, managers and tax officers of various industries. A set of questionnaire has been developed and 75 questionnaires have been distributed to various respondents. Among them, 30 from the group of exports and 30 from taxpayers has been collected. Statistical tools like simple average; percentage, correlation and chi-square test for hypothesis have been used in this study to analyze and interpreted the various data collected.

Summary and conclusions regarding this study have been presented in this chapter. Some useful recommendations have been given in the last chapter, which are very much useful to the tax policy makers, industrialists and general public, too.

Finally, this study has been completed with the achievement of the various objectives stated.

5.2 Conclusion

i. Some conclusions have been drawn on the basis of opinion survey, personal interview at the time of opinion survey and other studies. These are presented below.
ii. However the incentives and facilities are provided by ITA are seems to be sufficient, some intensive programs should be brought to aware and sensitize the tax payers.
iii. Tax planning is a tool of reducing financial burden, tax avoidance and tax evasion.
iv. However sufficient tax incentives seems to be provided further incentives is desired present ITA. Additional tax incentives are required to increase the scope of tax planning. To encourage export industries, to highlight the agro based industries; to stabilize the tourism industries further incentives are needed.
v. Tax incentives and tax planning are closely related each other and they have positive correlation because tax incentive encourages tax planning.
vi. The most important reason that tax planning is not widely used in Nepal is that tax administration is not cooperative, the next most important reason is people are unaware about tax planning then tax planning is lengthy and costly and so on.
vii. ITA 2058 has no clear provision in all aspect of tax planning. So, there are lots of difficulties to plan tax.
viii. Although rural area is addressed by the tax incentives and facilities but still it is not seems to be sufficient to invest in rural areas of Nepal in respect to plan tax.
ix. Tax planning terms is in practice in Nepalese industries but it simply means to reduce tax amount to be paid to the government. It can be tax avoidance, tax evasion or any way, to minimize tax burden.
x. 10 years tax rebate is not sufficient to increase the scope of tax planning in the remote area for the special industries.
xi. Tax concession of 20%, 25% and 30% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient
xii. There are much more difficulties to implement tax planning in Nepal. The causes are not friendly tax administration, insufficient tax incentives and facilities and difficult terms of tax act that are rarely understood by the general people.

xiii. There are other industries that should be included into the special industries Tourism and its related industries, communication network business, hydropower sector, software development business, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.

xiv. 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.

xv. In the conclusion, tax incentives are the fundamental elements to maximize the practice of tax planning. It can also be said that tax planning can't be imagined without tax incentives. However tax is not an important factor for the industrial growth, it plays vital role to initiate the industrialists for the entrepreneurship practice.

5.3 Recommendations

On the basis of opinion survey, personal interview at the time of opinion survey and other studies some measures regarding tax incentive and its impact on tax planning related to industrial sector of Nepal under ITA 2058 have been recommended, which are as follows:

i. Tax incentives and facilities should be provided in the new horizons fields and areas of the Nepalese economy.

ii. Tax rates should be reduced for banking, insurance and financial institutions in order to boost up foreign investment.

iii. Government should recognize the tax planning scheme lunched by the assessed. They are to be encouraged to maintain financial books of account. Different tax rate should be applied considering the nature, life of business, so that businessman can choose the business which he prefers.

iv. Like in individual income, there should allow two slabs in tax rate to business organization also.

v. To maximize the scope of tax planning, tax personnel and tax payers should be honest; government should encourage the tax planning scheme, because these are the facilities extended by the law to the assesses.

vi. Tax planning is not a new term for the business organizations of Nepal but because of knowledge lacking, and unhealthy practice of tax evasion and tax avoidance it is not functioning as desired. So, effective guideline, orientations, and co-operation should be provided by the authorities.

vii. The terms that are used in ITA are very complex and confusing. So, the terms should direct clear vision, clear-cut language should be used in the act i.e. common people can understand the tax incentives and facilities provided by the ITA.

viii. The main constraint for tax planning is the behaviors of tax administrator. Tax payers expect co-operation and good guidance from tax administration but the tax administration is not like that. So, tax administration should be more liberal and co-operative that reduces tax avoidance and tax evasion.

ix. Tourism and its related industries, communication network business, hydropower sector, software development business, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in the special industries.

x. Tax concession of 20%, 25% and 30% to the industries established in the underdeveloped, undeveloped and remote areas is not sufficient and it should be increased to 30%, 50% and 100% respectively.

xi. 10 years tax rebate i.e. tax holidays to industries established in various region of the country, tax rebate and rate of depreciation should be increased.

xii. In one way, tax planning is a way of maximum utilizing the tax incentives and tax facilities provided by the ITA and reducing tax burden. By other way it is an element to empower industrial practice. So, tax incentives should be recommended to increase and also recommended to raise the tax planning practice.

Note: Although all the assumptions are based on the ITA 2058 and analyzed as well, the rebate for the newly established industries (except negative listed industries) which are operating in 22 remote districts has changed into fully exemption for 10 years by the budget speech of 2066/67.

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